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REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

MARCH 7, 21, 22, 25, 27, 28, 29;
APRIL 1, 2, 3, 4, 15, 18, 24, and 25, 1985

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Part III—Field hearings.

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REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

THURSDAY, MARCH 7, 1985

U.S. Senate,
Committee on Agriculture, Nutrition, and Forestry,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in room G-50, Dirksen Senate Office Building, Hon. Jesse Helms (chairman of the committee) presiding.

Present: Senators Helms, Dole, Cochran, Boschwitz, Hawkins, Andrews, McConnell, Zorinsky, Leahy, Melcher, Pryor, Boren, Dixon, Heflin, and Harkin.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The Chairman. The hearing will come to order.

The Chair is confident that presently other Senators will appear. It is customary in this place to be fashionably late for meetings, but I will make my opening statement while awaiting the arrival of colleagues.

Today we begin the congressional process of reauthorizing the farm statutes that expire this year.

Consideration of what should be written into the 1985 farm bill began nearly 2 years ago. For example, in May 1983, I wrote to about 200 farmers, academicians, economists, agribusiness people and government officials asking all of them to submit papers on farm policy issues. The result of that effort was a publication by the Senate Agriculture Committee which bore the title "Farm Policy Perspectives: Setting the Stage for 1985 Agricultural Legislation."

Then in late 1984, the committee released another similar publication on agricultural trade policy, and the title of that one was "Trade Policy Perspectives: Setting the Stage for 1985 Farm Legislation."

Then the Secretary of Agriculture held a series of what he called "listening sessions" last year, and the Joint Economic Committee held a series of farm policy hearings.

So this leads us to the fact obviously that this is an unprecedented amount of interest in the farm bill this year. That is due in part to the enormous distress in rural America. As Congress begins work on the farm bill, the family farmer in so many cases is in dire circumstances.

We have to face the fact that current farm policy has contributed significantly to a situation in which many family farmers are unable to earn a profit on their work or their investment. Commodity surpluses which depress prices and reduce profits are a direct cause of the current credit crisis that has dominated the headlines this year.

As Congress examines the stress in rural America today, it is vital that we understand why that stress exists and make the necessary changes in farm policy to alleviate that stress.

Now, let me say at this point by digressing that I do not know of anyone who has all the answers. Certainly I do not. That is our job now to search for and provide in good faith the most reasonable answers possible to the problems.

But part of the problem with current farm policy is that in writing farm programs in the past, Congress has not given sufficient attention to the economic and practical day to day impacts that result from the application of programs. So I suggest we face up to the truth.

The precise details and characteristics of these programs and policy tools have been established by Congress more as a function of political consideration than a consideration of their economic and structural impact on farming and ranching in America.

Therefore, it should surprise no one that the detailed application of farm program instruments has had tremendous impact both on the U.S. farm policy and economy and that of the entire world. If the present financial situation of the U.S. farm economy is any indication, these programs have had an adverse impact in recent years. Government and those who operate it and implement it have meant well, to be sure, but it certainly appears that more harm has been done than good.

So, the Agriculture Committee, following this hearing, will hold a series of five thematic hearings over the next 2 weeks which this Senator will chair. These hearings are designed to give all Senators a better understanding of just how the various tools and policy instruments of farm programs impact upon farmers in the real world of supply and demand, profit and loss, and in the structure of the agriculture industry itself.

These hearings will examine such topics as the structure of agriculture, the economic impact of loan rates, target prices, production controls, and supply management in agricultural policy; the impact of research and technology in agricultural policy; and the question of investment and debt in agriculture.

It is my hope that Senators will be able to attend these hearings, because the information gleaned from these hearings will give all of us a better understanding of the options we have, limited as they may be, and the decisions we must make, tough as they may be, in writing the 1985 farm bill.

Following the series of thematic hearings, the committee will hold a series of conventional hearings on the various farm and commodity programs, at which time we will hear from all interested parties. The subjects and dates and times of these hearings will be announced at a later date.

Now, I do not want to take up too much more time because I want to hear from other Senators and, of course, our witnesses. But there is one point which I have been trying to make in my awkward way to people who care about farm policy, and it is a point that the American farmers understand, I think, in greater number than we sometimes would think. I am confident that as we proceed with today's hearing and the hearings in the weeks ahead, there will be broad agreement on at least one point, and that being that current farm policy is not working.

During the past 4 years, the American taxpayers have spent more than $60 billion on farm programs. The question, have the present farm policies helped agriculture—well, the distress around the country seems to answer that question.

Farm income has declined 27 percent, exports have dropped by $8 billion. Our market share of exports has dropped from 60 percent to 50 percent. The United States built up massive surpluses and farmers continue to suffer losses in profits.

Now, all of us have enough common sense to understand arithmetic. The foreign producers of grain, for example, know that U.S. farmers will not be able to sell wheat on the export market for less than $3.30, since that is the amount for which he can get Uncle Sam to buy it through the support loan mechanism. So all the foreign farmer has to do is sell it for less than that and, bingo, he takes the market price away from the American farmer.

That illustrates the point I think that U.S. farm programs—that is $60 billion provided by the U.S. taxpayer—has in fact helped the foreign farmers while bringing hardship to the U.S. family farmer.

Now, this Senator believes that we cannot and we must not continue these policies that profit the foreign producers. What are our alternatives to a farm policy that simply is not working?

There are two alternatives to what we are now doing. One is for government to become even more involved in agriculture. But what would that do? It would require more government regulation, mandatory controls on production for all crops, and artificially high prices which would merely result in even greater declines in our market share and profits. You do not douse a fire with gasoline.

Even the advocates of more government involvement admit that if it is to work, it will mean closing our borders to agricultural trade and taking 30 percent of our production base out of operation. Do we want to do that? I think not.

So, I think it is obvious that this kind of so-called public utility agriculture will blow us out of the water. It would cripple not only 30 percent of our agricultural production itself, but 30 percent of our equipment dealers, 30 percent of the farm banks, 30 percent of the seed dealers, 30 percent of the fertilizer dealers, and 30 percent of the kind of society that makes up rural America. I suspect that a 30-percent contraction of our agricultural production would have enormously adverse consequences for the entire economy.

So, we are dealing, whether we like it or not, with the reality of a global economy, and there seems to be no alternative to returning to market orientation in U.S. farm price supports, because only when our competitors know that Uncle Sam is not guaranteeing to farmers everywhere a world price that is higher than market prices will we see foreign farmers reducing their production. Without the market orientation adjustments in our farm policy, American farmers will be the ones doing the reducing, and that is the road to disaster for farmers and for all the rest of us.

I am saying that if we exercise some courage and common sense, we will see exports from the United States begin to grow again, instead of continuing their decline. We will see U.S. farm income rise, instead of fall, and I believe it is absolutely uncontrovertible that only market oriented agriculture policies will save our family farmer and our treasured rural way of life we all say we love so much.

I do not favor market oriented policies simply because the process would save money. I favor market orientation because it will save our family farmers, and because it will reestablish U.S. agriculture to its competitive best. Of course, it is important to save money, but I am convinced, really, that the best farm bill we could possibly write in the Congress of the United States would not have to have the word "farm" or "farmer" in it, if we had a balanced budget or a movement toward it, that would cause interest rates to fall. All of us know that 20 percent of farm input cost is consumed by interest payments alone. So each percentage point drop in interest rates puts more than a billion dollars in the farmers' pockets.

I know there will be disagreement and there will be proposals all over the lot and we will consider all of them, but if we abandon and ignore the principles that made this Nation unique in the first place, we are going to discard a lot of things that we will regret later on down the line.

So this Senator says we should craft a farm bill designed to meet the challenge confronting us. We will not do it easily. We will not do it without criticism, but we certainly cannot do it without a measure of courage.

We will insert in the record a statement submitted by Senator Wilson.[1]

Senator Zorinsky.

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator Zorinsky. Thank you, Mr. Chairman.

A devastating financial crisis is confronting many of our Nation's farmers, and the causes and effects of this crisis have been well documented. Now, as we consider the 1985 farm bill, we must focus on developing equitable and workable solutions.

Much rhetoric has been expended in support of the so-called market oriented approach to resolving the farm crisis. Let me say that orienting agriculture to the marketplace is a worthy goal. However, the international market in which our agricultural products are sold is not a free market system. By some estimates, over 90 percent of the commodities traded in the international market are subsidized by either the buyer or the seller. Our farmers can compete with farmers of other countries but they cannot compete with the treasuries of the other countries. [Applause.]

In the interest of hearing all the testimony to be presented, please refrain from interruptions.

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[1] See p. 369 for the prepared statement of Senator Wilson.

The **Chairman**. We cannot have demonstrations of that nature further and I ask all of you, whether you agree or disagree with any Senator or any speaker, to please recognize that you are guests here and we must have order.

You may proceed, Senator Zorinsky.

Senator **Zorinsky**. Thank you, Mr. Chairman.

To compel the American farmer to market his production at so-called market clearing prices in such an international market without the benefit of a proven and effective safety net could be damaging to our family farm system of agriculture and could have dire consequences for our national economy as well.

I will support a free market farm bill if and when we are dealing with a free market international economy. We all have heard and have sometimes participated in the criticism of the farm programs of years past. However, I remain unconvinced that those programs were totally and inherently ineffective.

For years, they provided Americans with the cheapest, most bountiful food supply in the world, and when properly administered they helped stabilize the farm economy. They gave our Nation a favorable balance of trade for many years and on occasion provided a net profit to the Federal Treasury.

We will never know what successes could have been achieved with the traditional farm programs had not outside forces intervened. Those forces include embargoes imposed by both Democratic and Republican administrations, a continued specter of huge budget deficits, and periodic reductions in the price support levels that have been implemented since the 1981 farm bill.

This periodic reduction I think was very clearly amplified last year with the Government deciding to lower the target price for wheat from $4.65 to $4.38, after a farm bill had been in place for 2 years and had 2 years remaining before expiring. The Federal Government provided those programs for the farmers to take to their bankers, to say, "This is what the Government has promised us for the next 4 years." Unfortunately after 2 years the Government welshed on the farmer and decided to change the rules of the ball game. I think we have got to stop destroying the credibility of our Government by making these constant changes.

Today, as we begin work on the 1985 farm bill, we must recognize the depressed condition of the farm economy and develop a bill that addresses the problems our farmers are facing.

The most pressing need is for short-term credit for family farmers so that crops can be planted this spring. Many family farmers have already failed and many others in terms of financial condition are beyond the point of no return.

As a matter of fact, I am informed this morning that last evening, in a small town in rural Nebraska, a farmer, after turning the news on and hearing of the President's veto, felt such despair the Government would not provide any assistance to help save a farm that was entrusted to him by the generation before him, that he shot himself to death.

This is the reality of what is happening in rural America. This is not a game that is being played.

We must address the needs of our farmers because the very survival of agriculture in this country is at stake.

Every effort must be made immediately to save those farmers who can still be saved, and many still can be saved. And for that reason, I strongly urged the President to sign the farm credit legislation that was approved by the Senate last week and approved by the House on Tuesday.

In addition and concurrently with the development and implementation of the 1985 farm bill, we must strive to restore the notion of contract sanctity in our agricultural trade dealings with foreign nations. Foreign nations must understand that we are a reliable supplier of the highest quality agricultural products in the world. And finally and also concurrently, we must reduce the Federal budget deficits that are bolstering the value of the dollar to the detriment of our export trade.

Many people feel we have a dichotomy when we say "spend a few bucks to save a farmer, but we must reduce the deficit and the budget at the same time". It is very simple: A reordering of priorities is needed. By that I mean a little less to the IMF, a little less to bailing out multinational corporations, and a little less for helping people who are not Americans and who do not appreciate our help.

I believe that the 1985 farm bill should be designed to achieve six primary objectives:

First, farm income must be improved and stabilized. I believe we should seriously consider the merits of farmer-approved programs that tailor production levels to demand. Such controls should be flexible enough to respond to volatile export markets, while providing some measure of protection for family farm operators.

Second, consumers must be assured of a safe and reliable supply of food. I think most consumers understand that food is a tremendous bargain in this country and—if we are to continue to enjoy this abundance—consumers must share in the cost of maintaining our family farm system of agriculture.

Only 14 percent of the disposable income of the American people is spent for food. In many other countries, anywhere from 60 to 80 percent of the disposable income is spent for food. It would not hurt the American consumer to increase by 1 or 2 percent the amount of their disposable income spent for food in order to assure a continued reliable supply of domestically produced food.

In addition, to help protect consumers and farmers, we should consider creating a national food reserve—to be used only in the event of a national emergency.

Third, over production must be reduced and controlled, thereby reducing Government costs while at the same time improving commodity prices.

Fourth, we need a farm bill that is oriented to conservation. It is in the national interest to conserve our scarce land and water resources. we cannot afford to mortgage the future by depleting the natural resources that future generations will rely on for their agricultural production.

Fifth, we must develop new markets through export sales and research and development on alternative uses for farm products—such as corn fructose and alcohol fuels.

Sixth, the cost of farm programs must be reduced.

The CHAIRMAN. Thank you, Senator Zorinsky. Senator Cochran.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator **Cochran**. Mr. Chairman, let me congratulate everyone who is going to testify before the committee for cooperating in our effort to try to find answers to the problems that are confronting agriculture today. I do not think anyone doubts the complexity of the problem that we are facing or the seriousness of it.

I for one do not really think that we are going to solve the problems in agriculture by simply offering a farmer another loan. I think we have to restore profit in agriculture—that is the real answer to the problem. I hope the witnesses will help us try to figure out how to do that in writing a new farm bill this year.

Mr. Chairman, I am not going to make a long-winded speech. I have a written statement that I would like included in the record.

The **Chairman**. Without objection, the Senator's statement will be included in the record.[1]

Senator **Cochran**. I thank the chairman. Let me also apologize to the chairman for having to leave in a few minutes to chair a hearing on agricultural appropriations. In order to have these programs operate, we need them funded and we are going to have a hearing in another part of the building. Although I will not be able to stay to hear all of the witnesses testify, I will be reviewing all the written statements and I thank you for being here.

The **Chairman**. Thank you, Senator.

I will recognize Senators in the order of their appearance. Senator Harkin was here next so we will recognize him.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Senator **Harkin**. Thank you, Mr. Chairman. I do not have a prepared statement and I do not want to take a lot of the committee's time either.

For those witnesses who are about to take the witness table, I just want to ask one question and have you think about it and answer it, and that is this: We hear so much talk about world market prices, that somehow we have to reduce the price of our grain so that it will clear in the world market.

I noted last week, I checked on it. The price of a bushel of corn in Chicago was $2.73 a bushel, in Rotterdam it was $3.75, and in the European Community it was $5.60 a bushel. Will someone please tell me how low we have to drive our prices to obtain world market clearing prices? What is the world market price of a bushel of corn?

Thank you, Mr. Chairman.

The **Chairman**. Thank you, Senator.

Senator Dixon.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Senator **Dixon**. Mr. Chairman, first let me say I am pleased to be here this morning. It is the first hearing of the Senate Committee on Agriculture, Nutrition, and Forestry and I commend you, Mr.

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[1] See p. 367 for the prepared statement of Senator Cochran.

Chairman, for scheduling hearings on the vital matter of the 1985 farm bill.

It is gratifying to see the many farm groups represented here. I am sure that with their help we will craft a farm bill which will address the crucial issues that farmers face today.

Mr. Chairman, I would just like to tell you two personal experiences I have had as a Senator from a great farm State in the last several days that we ought to take into consideration when we talk about the 1985 farm bill.

Last weekend, I went back home to Illinois to our great land-grant university, the University of Illinois, which is a great agricultural university, to speak there on farm problems. The next morning, I was at the airport in Champaign waiting to catch an airplane to St. Louis where I saw my good friend, the distinguished Senator from South Dakota, Senator Abdnor. We were coming back to Washington on the same plane together.

A man came up to me and he said, "Senator Dixon, I have just seen you on television concerning your amendment to the farm bill. I want to tell you about a personal experience I had this week." He said, "I just bought some farm land here in Champaign County this week." Incidentally, that is a great farming area. He said, "The farm land sold in 1978 for $2,800 an acre. I bought it this week for $865 an acre."

The next day I received a telephone call in my office—incidentally, I cannot give you that man's name now, but he promised he would write me a letter. I requested that he do so, and I would like to put his name in the record later.

The other day in my office I received a call from Robert Snyder, a 58-year-old farmer, a World War II veteran, who lives near Bethany, in Moultrie County, IL. He told me, "I've been hearing all this talk about the farmer's problems and I just wanted to get something off my chest." The first thing Robert Snyder wanted to point out is that it is not just the farmer who has a problem. "Our neighbors are in trouble, too," he said, "not just our farm neighbors but our folks in town. Let me tell you," he said, "the Senators and Congressmen should know about what is going on in Moultrie County, IL. Our lumberyard has closed, one implement dealer has already closed, a second implement dealer is closing down in a couple of weeks, after being in business for 42 years. Two concrete mix firms in the county have folded. How many businesses are going to close," he asked, "because the farmers cannot afford to patronize them? When is it going to stop?"

Robert Snyder went on to say that he has seen low times during his 58 years as a farmer, but this time he said is the worst. The farmers, he said, have had it bad before, but their problems have not had the devastating impact that they are now having upon the rural communities. He said, "Our rural towns here are slowly dying." Robert Snyder's telephone call I think tells us all that the Moultrie Counties of this country are crying out for help. All of us have Moultrie Counties in our States to a greater or lesser degree.

Robert Snyder's message today is this: We Senators of whatever political persuasion had better not leave this place without properly attending to the economic health of the Moultrie Counties of our States. To do nothing or to do less is a disservice to our farmers and to our fellow citizens, in my opinion, whether rural or urban, who know that a thriving farmer is the key to a growing dynamic economy for all of us to enjoy.

Mr. Chairman, I look forward to hearing the testimony presented beginning today on the 1985 farm bill.

Senator **Zorinsky**. Thank you, Senator Dixon.

The next arrival to the committee hearing is Senator McConnell, from Kentucky, according to Senator Helms' list here. Senator McConnell, we call on you next.

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Senator **McConnell**. Thank you, Senator Zorinsky. I do not have an opening statement other than to say I am pleased to be a member of this committee, as a new Member of the Senate. I start listening to the hearing process with no preconceived notions as to how we ought to be structuring the farm program for the next few years, and I for one am quite likely to be influenced by what we hear from all of you in the coming days. I look forward to hearing the testimony of those here today and otherwise as the hearings unfold.

Thank you, Mr. Chairman.

Senator **Zorinsky**. Senator Melcher, from Montana.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator **Melcher**. Thank you.

We are here to start hearings on the new farm bill. The administration's farm bill deserves a little attention and I understand we will have Secretary Block here this afternoon. Then, however, I think we can get down to business and disregard this bill that the administration has sent up and start thinking about a bill that is constructive and workable.

It is ironic that this administration which has spent more money out of the Treasury than any other administration in all history, should be sending up a bill of this nature. When you talk about money cost of farm programs, the record of the past 4 years has been one of disaster both in terms of helping farmers and also in terms of spending money. PIK alone for 1983 cost $12 billion. That is part of the all-time record of payments out of the Treasury by this administration. PIK did not accomplish anything in terms of improving prices for agricultural producers.

The loan rate has been considered the safety net to establish a floor price that will keep those who produce the various commodities in business. Clearly, however, it is not good enough if you had to depend upon the price of the product just being at the loan rate level year after year after year. It will not work because the cost of production is actually higher.

But it has been historically the safety net so that if all else went to pot, there would be something left so the producers could pay their bills. Let us look at what the administration's farm bill would provide for the loan rates for various commodities. The proposed rates are not very good in any year, but the goal is to get to 1989 when the loan rate for wheat would be $1.99, a nice round figure when the cost of wheat production per bushel either by the administration's figuring, where you do not put much in for the land cost, is $4.50, or by the figuring of the land-grant colleges, where it is somewhere around $4.75 per bushel.

For corn, the loan rate would be $1.72, and I have been advised by everybody that I have talked to in corn production areas that cost of production is $2.70, perhaps higher per bushel. The loan rate for sorghum would be $1.48. The loan rate for rice would be $4.30. For soybeans, it would be $4.25, and for milk it would be $8.63 for the price of milk under the milk program.

The administration appears to be hand wringing over this problem of what to do about improving prices. It is like the undertaker at the wake. All they are doing is wringing their hands and standing around very solemn and then seeking to have Congress mandate their programs which would surely remove the problem because there simply would not be any farmers left by 1989. They would all be gone.

There is a sensible way to do this and I think Congress will choose the sensible way. I think we will move in a direction of not asking for more Federal dollars. We can live within the budget freeze providing we move in the right direction in the farm bill. The key to turning this price drop around so there can be a price improvement and farmers can make some money, rather than continuing to lose money year after year after year, will be both reducing the budget outlay out of the Treasury and improving the price through either loan rates or some other mechanism. The price the farmer receives should come out of the market and not out of the Treasury, but that price should be adequate to meet the cost of production.

That seems to be so sensible and have so much common sense in it that you wonder why there would be any argument. Yet there is an argument with the administration over this bill. What the President said last night did not help matters when he talked about the farm credit bill being some sort of bailout which costs billions of dollars, and when he in effect insulted the intelligence of American agriculture.

Well, if the President wanted war, he declared war and he will get war, but there is a great deal of confidence, I think, in this country and in Congress regarding the future of American agriculture. I encourage all of you who are witnesses today—as a matter of fact, I encourage the public—to keep their confidence in American agriculture. It is going to be a battle here in Congress to turn around this hand-wringing attitude of the administration and anybody else who wants to be with them. We will turn that attitude around and say we do have confidence in American agriculture and we know that it is our best industry.

Mr. Chairman, I have no further comments at this time.

The CHAIRMAN. Thank you, Senator.

The Chair would reiterate that we are recognizing Senators for their opening statements on the basis of their order of arrival. Senator Heflin will be next and following him Senator Pryor, Senator Leahy, and Senator Andrews.

Senator Heflin.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator **Heflin**. Mr. Chairman, I hope that as we approach this presently thought of 4-year farm bill, that we will endeavor to give considerable thought to an even longer view of agriculture in America. We must consider the role of U.S. agriculture in the world, and we must keep in mind the specific factors that come into play relative to farm policy.

I hope that we can look at some budgetary matters which reflect the true cost of agricultural programs. We are bound by the Budget Act of 1974 in which many payments and loans by Federal entities are listed as a budget item and goes into the overall deficit that we have. However; repayment farm loans to the Commodity Credit Corporation, the Farmers Home Administration, the Small Business Administration on farm disaster loans and others, is not reflected relative to budget or reflected relative to the deficit.

Now, it may well be that there are other agencies of the Government that would have to be considered, but I think that we really ought to try to get down to what farm programs truly cost.

Let me illustrate what I am saying with the farm credit amendment added to the Ethiopian relief bill. The Dixon amendment, which would have allowed the advance of 50 percent of the loan rate up to a maximum of $50,000 from the Commodity Credit Corporation to farmers, was said to cost the Government around $7 billion. In my judgment, it would have made the Government money.

The farmer who used that loan and later took his crop out of the loan would have had to pay the Government back at 9⅛ percent interest. It was a saving to the producer, because most farmers have to pay a much higher rate of interest. It would have been an advance on a loan that they would be eligible for after harvest. But the Government today on Treasury bills does not draw 9⅜ percent interest. It would have ended up in a net profit to the Government if that provision of the farm credit bill was not vetoed.

I hope also we can take a long-range view of agriculture relative to what we know as to the law of supply and demand. I remember 4 years ago Senator Cochran testifying before this committee that the population of the world at that time was increasing at 70 million people per year, almost half a billion people every 7 years.

We know from Ethiopia, and other places that there are starving people in the world. There are people suffering from malnutrition. They cannot get food. If our long-range agricultural policies are such that we cannot in effect sell to that market—and there are many reasons, cost of transportation, the value of the dollar, no available credit, no export markets—I think that we need to never lose sight of the fact that there is a market out there. And somehow or other, if we adopt the proper policy and practice, we can sell to this market.

Now, this raises the question of markets. If we are going to increase markets, it has to be largely from two sources. One, increasing domestic markets, by making food like soybeans more palatable for human consumption, or to find export markets.

In the field of export markets, we have to also look at our competition. We have seen ill-advised embargoes, such as the grain embargo pertaining to the Afghanistan invasion, where a foreign policy tool came into effect and had a ruinacious effect upon agriculture. But at the same time, on a long-range basis we have to look at other competitors. We saw Brazil and Argentina come forth in the seventies and get into the soybean market.

We are now seeing arriving on the scene other competitors. There is a great fear that China may become a serious competitor not only in cotton but soybeans and wheat. We are already hearing that Zimbabwe is now an exporter of corn. We are dealing with some socialist countries like France and others who are paying their farmers a bonus, such as in eggs, 11.5 cents a dozen, if you will sell to a foreign customer. All of this has to be considered in a long-range policy.

At the same time I think we have got to look at our production practices in America and we realize that we have got to reduce the cost of production. One thing that has to be produced is a lower cost of interest.

Machinery is terribly expensive, and chemicals, insecticides, herbicides, all of these are terribly expensive. And then of course the value of the dollar rises again.

A key, in my judgment, to a long-range policy is research. Research designed to reduce the cost of production and transportation. There is a lot of research going on today, but somehow that research must be designed to reduce the cost of production. A lot of industries today are similar to where agriculture was a few years ago. Agriculture has some advantages that other basic industries in America do not have. The steel industry, the textile industry, and other industries that we know, have a problem of labor displacement, but agriculture really has got the problem of labor displacement behind it.

Agriculture has another advantage in that the university role in research is in place. I think it is a matter largely of direction that we ought to be looking at, research to reduce the cost of production, how are we going to increase the markets, and a program and a plan that will bring about an overall increase in the markets domestically and abroad.

In a bill that was passed a little over a year ago, we provided $2 billion under the export credit guarantee program designed to improve the export markets of soybeans and cotton, but to date the Department of Agriculture has done very little with that, has expanded very little of that authority. That does not mean that it was $2 billion to be spent, but it was guarantees to try to obtain export markets.

Leadership, direction, long-range policy, research designed to improve markets, research designed to decrease the cost of transportation, research designed to decrease the cost of production are long-range items that we ought not lose sight of as we view the problems of the 4-year farm bill that we are presently going into and of which this is the first hearing. Thank you, Mr. Chairman.

The CHAIRMAN. The Chair hopes that the witnesses will have some time this morning. The order from this point on will be Senator Pryor, Senator Leahy, Senator Andrews, and Senator Dole, in order of arrival.

Senator Pryor.

STATEMENT OF HON. DAVID H. PRYOR, A U.S. SENATOR FROM ARKANSAS

Senator PRYOR. Mr. Chairman, thank you. I will make my remarks very short because we do have more distinguished witnesses this morning. I just hope that the record will reflect that this hearing room is packed with people from all over America, many of whom have come to this city and to this room seeking answers and seeking hope.

I think that today the hardest question that is posed to someone, who is a member of the House or the Senate, is: Is there any hope for the American farm family, is there any hope for those who live in rural America?

I hope also the record might reflect, Mr. Chairman, that there is a feeling this morning of despair in this hearing as we begin hearings on the 1985 farm bill. This feeling of despair, I hope, will not be present in our last meeting this year, when we conclude and finally mark up what will be a 4-year farm policy for the farmers of our country.

I would also like to state, Mr. Chairman, that I believe we are not engaged in so much of a battle over the budget as we are in a difference of philosophy, a philosophy of the relationship of Government to the people who produce food and fiber in America.

I am one who believes that the farmer today has become a prisoner of a system and a policy. Cheap food has become a policy of our Government, that says to that farmer and his family to receive the same prices you were receiving a decade ago, notwithstanding the tremendous increases in costs to produce that crop.

I believe that our farmers want to be taxpayers once again. I believe that thousands of farmers are daily leaving the rolls of taxpayers who haven't a sufficient income to be taxpayers of our country.

Today, I do not believe farmers are bitter. I do not believe that they are necessarily angry. I found the farmers in Arkansas to be people in deep anguish, crying out for a second chance, wanting to be producers and wanting not to have that scarlet letter placed on their foreheads saying that they are obsolete or that they are inefficient.

This morning, in the Washington Post, I read a story about General Dynamics, who gets $23 million every day from the taxpayers of this country to produce weapons. Only 5 days of what General Dynamics receives is the sum total, in cost, of the legislation that our President vetoed. Saying it was going to become a budget buster.

It might also be noted that General Dynamics, in spite of profits in excess of $1 billion, has not paid one penny in income tax.

I hope today, Mr. Chairman, that as we look at what we might be able to do for the economic infrastructure of rural America, that we will once again realize that in recent years our foreign aid has increased 158 percent, arms grants to foreign countries over 500 percent, and that in the U.S. Department of Agriculture budget we once again note that food stamps, WIC, child nutrition and many other programs are lumped into the USDA budget. This is then not truly reflective of those programs that directly benefit the farmers of this country.

Mr. Chairman, finally I would like to say that I pledge to you and to the members on this side and the other side of the aisle not only my attention but my commitment. I hope that we can proceed in a bipartisan nature. From this day of despair we can hopefully bring some ray of hope to the farmers of our country.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Leahy.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Senator LEAHY. Thank you, Mr. Chairman.

I believe it is obvious that the farm bill will be written at this end of Pennsylvania Avenue, on Capitol Hill. To enact a realistic farm bill, it is important that we hear from the farm experts here. Through the hearings we hold, the rest of the Senate will be informed. I intend to help inform my colleagues. I will be keeping informed through hearings here and in Vermont.

Mr. Chairman, with your permission I will submit my statement for the record. I think I would rather hear from the experts.

Thank you.

The CHAIRMAN. Thank you very much, Senator. We will insert your statement in the record.[1]

Senator Andrews.

STATEMENT OF HON. MARK ANDREWS A U.S. SENATOR FROM NORTH DAKOTA

Senator ANDREWS. Thank you, Mr. Chairman. It is good to be here and, as my colleague from Vermont has said, I will try to be brief, also.

Let me talk to those of you in the audience for 1 minute, and tell you what we would hope to hear from you. Agriculture and farm programs should be bipartisan. My colleague from Vermont, Pat Leahy, and I have traveled to each other's States. He has been on my farm home in North Dakota. I have held hearings in his State and he has joined me in holding hearings in mine to find out what is going on. That is really what this is all about.

I am a farmer myself and if I louse up on a farm program I might get voted out of the Congress. Then I would have to live under the farm programs, so I have a double reason to try to get good farm programs put through.

Let me say that I was one of those Republicans who joined in the filibuster to get a better break out there for planting season credit, because I believe it was necessary. But let me tell you also that we achieve our goals to a great extent. Senator Zorinsky, Senator Boren, Senator Exon, and myself from the Republican side, worked long and hard on this package. My friends, Senator Dole and Senator Helms, were not happy with me, but 48 hours into that filibuster we sat down and worked out a bipartisan agreement. The administration agreed, also, and they put it into effect in the field.

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[1] See p. 369 for prepared statement of Senator Leahy.

One of the things I would like to hear from some of those testifying is how it is working, because before we started that filibuster I was told by my Farmers Home Administration office out in North Dakota that they did not have enough money to take care of operating loans. I talked to Ralph Leet, who is the Director of Farmers Home Administration in North Dakota and asked him whether funds were actually being delivered out in the field? He said they received $3.5 million in additional funds today, which makes the total additional money allocated to North Dakota since the filibuster bipartisan agreement $17.5 million.

Now, what was once a stressful credit condition in North Dakota is being alleviated. I think we ought to, Mr. Chairman, as members of this committee, find out from you out in the field whether this is true in the other States. Are there adequate funds available from Farmers Home for these operating loans.

I could talk for a long time about the need for agriculture. I would hope that we can begin to talk not about the farm problem but the agricultural advantage that farm families give this Nation because we produce enough food to take care of our own needs and have a little left over for the rest of the world.

That African famine bill was testimony to the fact that our Nation and our Nation alone has a system of food production that works. That is why we were asked to share it with Africa. The Soviet Union, the other superpower, cannot make the same claim Mr. Chairman, there are a lot of people in this troubled world in a lot of underdeveloped nations that do not necessarily look at us with any great awe for the fact we can blow the world up 10 times over or land a man on the Moon. Other nations can do that too. They do look at our country with awe because we can produce enough food to take care of ourselves and have a good deal left over to handle the needs of a troubled world.

So, Mr. Chairman, I salute you on getting these hearings under way. I would hope that those of you from the agricultural sectors of our country would let us know in a concrete fashion what the problems are and are these funds now being delivered out there.

I was one of those who voted to try to put some of those credit programs in the African relief legislation. That legislation was vetoed, but most of that legislation that was vetoed is now in effect in the field. I would have liked to have seen those proposals nailed down in law, and that is why I voted in the way I did, but we did not get it that way. But we are going to add to it in the bill that is coming before us, this 4-year farm bill, and I would hope that we can stop this part-time polarization.

Farmers are farmers, are Americans, they are not Democrats, they are not Republicans. Most of us farmers are Independents. We got that way because of who we are and what we do. We want to see Republicans and Democrats work together to get the best possible 4-year farm bill. The best possible one for farm families. The best possible one for the economy and the future of this country. In the long run I think we want to stress what I mentioned a minute ago, the agricultural advantage. The fact remains, that we can win far more friends in a troubled world with our food than we can with all the bullets and bayonets we have moved out of our armament factories over the last two decades.

Let us put together a responsible good farm program and do it on a bipartisan basis and get one that works. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Dole.

STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

Senator DOLE. Thank you, Mr. Chairman. I will only take a minute or two.

I would say this: What we need to do now is start focusing on the very thing the chairman spoke of, and that is the 1985 farm bill. We have been diverted here the last 2 or 3 weeks arguing over credit issues when we should have been spending time concerning ourselves with how to get a price for the farmer and how to get a farm bill passed.

We have spent a lot of time playing politics. Let's face it, nobody in this room is unsophisticated. We know politics on either side when we see it, and political posturing is not going to solve the farm problem. I hope we can get a bipartisan bill out of this committee as we have in the past. I have met with a number of farmers the last few days who have not liked what we have done in the past anyway.

I think the administration's bill will force us to focus on farm policy. If I have heard anything from farmers I have met with the last several days, it is that present policy does not work, it has not worked well on long-term basis over the last 10 to 15 years. We have had Republican and Democratic administrations, and we have always had a farm program, and I imagine when we get around to the witnesses here today that we will have about nine different farm programs presented.

We have to look at all the proposals and try to come together on one that we can pass in both the Senate and the House. We can generally pass a farm bill in the Senate, but it is very difficult in the House. The last bill passed the House by two votes.

It is now time to focus on what the administration has done regarding farm debt restructuring. We have been assured by the administration that there is not a $650 million cap and that adequate funds are available to meet spring planting needs. We have addressed concerns expressed by banks who wanted to drop the 110 percent cash-flow requirement to 100 percent. That change may not help the farmer, but you have to make the program flexible enough for bankers to participate or it is not going to work in any event. We have done a number of other things.

In our State, for example, we have 130 retired bankers who have volunteered to help assist in the processing of loan applications. There are seminars going on right now in my State with the Kansas Bankers Association to inform lenders about the program. We have been asking farmers in some of our telephone calls, what it is they do not like about the administration plan.

I must tell you that not many people knew about the Debt Adjustment Program. They did not know what was in the Debt Adjustment Program, and I am not certain they all knew what was in the plan we have been fighting over the past 2 or 3 weeks.

The issue became, if you are against advanced loan rate payments and interest rate buydowns, you are against the farmers. And if you are for advanced loan rate payments and interest rate buydowns, you are for the farmer. I can't believe we are going to make any judgments on that basis around here. And we can all give horror stories about some other agency's spending program. I can tell you some horror stories about agriculture programs as well; about people who got $3 million payments under the PIK Program, for example. There are a lot of farmers who get good deals in farm programs. We should not have to go to the Defense Department or some other agency for spending cuts to reduce the deficit and exempt agriculture at the same time. We cannot run the Government that way. We cannot play one agency's budget off against another agency's budget.

Our responsibility as Democrats and Republicans is to look at the total budget and look at the total picture and try to figure out what is fair for agriculture. One way is to look at the percentage of growth. In the Carter years, the baseline was $2 to $4 billion a year, and now it is $12 to $14 billion a year. That is a big, big jump.

I would finally say this: We have got to reduce the Federal budget deficit. If you are concerned, and I know you are, about your children and grandchildren, then you should be back here beating us over the head about the deficit.

We are paying about $150 billion in interest payments this year at the Federal level. We could do a lot for farmers with that $150 billion. Our problem is we have been saying yes for so long that we have got ourselves into a mess, and Congress is partly responsible. We have made cheap money available to farmers to buy more land, which has now dropped in value and now Farmers are in trouble. We have encouraged banks and everybody else to loan more money and now some of the banks are in trouble.

But if we do not face up to the Federal deficit this year, I am not certain how many could afford to come back here next year to testify. They probably cannot afford to come back here this year.

We all made the same speeches last year. It would have only taken one political speech writer for all of us. We said that we are all going to come back here and reduce the deficit if they voted for us, and now it is time to live up to our promises of reducing the deficit. As we sit here the Budget Committee is meeting to try to work it out.

I do not think any member of this committee is against the farmer. However, I think different members have different views on how to reach a fair farm bill.

We cannot complain about spending unless we say the administration spent too much the last 4 years—some would say $50 billion, some would say $63 billion in agriculture as opposed to $20 billion in the 4 Carter years.

Now, if it is spending money that makes you for the farmer, boy, this administration is really for the farmer. They really poured out the money. I have to believe that our problem in agriculture is the strong dollar. If you raise a crop and cannot sell it overseas because of our big budget deficit and resulting strong dollar that makes the U.S. uncompetitive it is obvious that we need to do some surgery and everybody has to contribute, including agriculture.

It is nice to sit here and say just what you all want to hear. But in addition to being farmers you have got other responsibilities and so do we. One is to reduce the deficit and if we only accomplish one task this year and if that task is to reduce the deficit which will bring down interest rates, and moderate the strength of the dollar, than we have done a lot for the American farmer.

In addition, we are going to look hard at the administration's farm bill. We are going to focus on it and we will probably have 17 additional farm bills—one from each member of this committee. Each of us will have a farm bill, and you may not like any of them but when we pass it we will put out a press release saying it is the best thing that has happened since sliced bread.

So we understand the problem and we understand the frustration, but we are willing to take the heat to reduce the deficit if you are willing to help us reduce the deficit.

The **Chairman**. Thank you, Senator.

Now we get to the witnesses. The first two witnesses will be the distinguished Senator from South Dakota, Mr. Abdnor, and the distinguished Senator from Oklahoma, Mr. Nickles, and I suggest that the two of them come up.

I will say to all witnesses that your entire prepared statements will be included in the record and it will save some time if you feel you could summarize, but if you cannot we will be here as long as you are.

Senator Abdnor.

STATEMENT OF HON. JAMES ABDNOR, A U.S. SENATOR FROM SOUTH DAKOTA

Senator **Abdnor**. Thank you, Mr. Chairman and members of the Senate Agriculture Committee. I am gratified and honored to be the first to testify before you on the 1985 farm bill.

U.S. agriculture is at a pivotal point in history. It is at a crossroads. Our choice of programs and policies for the 1985 farm bill will set agriculture's horizon for years to come.

Now, some envision agriculture as a highly protected, closed industry which is frozen in time with the Federal Government mandating production and marketing decisions. Others see the 1985 farm bill as providing only the barest minimum of public support. They coldly see the Agricultural Adjustment Act of 1985 as a perfect opportunity for the Government to bail out of U.S. agriculture, to cut any responsibilities that the Government has to farmers and ranchers in this great Nation. They see America's farmers, armed only with their productivity and their inherent sacrificial tendencies, going forth to do battle with the treasuries of the European Economic Community or the Canadian and Australian Grain Boards.

Our challenge, Mr. Chairman, is to search out the more reasonable ground which lies between these two extremes. But what are the more reasonable grounds? What kind of farm bill can we draft which will keep thousands of farmers from going bankrupt during these difficult times yet not increase our Nation's burgeoning Federal deficit? What kind of farm bill can we draft which will provide farmers with a reasonable price for their commodities without reverting to Draconian, mandatory production controls and without bankrupting the Federal Treasury still further?

Three years ago, the Joint Economic Committee began its search for answers to these questions. As chairman of the JEC's Subcommittee on Agriculture, I initiated and spearheaded this major undertaking. At that time I assembled a number of agricultural economic indicators which revealed disturbing trends—decreasing farm net income, increasing debt loads, lower prices, declining exports, and increasing taxpayer costs. It became quite apparent that the farm programs we have today, which were created in the 1930's, are incapable of dealing with the radically changed agricultural environment of today. In short, a whole new program for agriculture is needed.

The Joint Economic Committee and its Agriculture Subcommittee, which I chaired, held over 30 public hearings on topics such as the importance of agriculture to the U.S. economy, the changing economics of agriculture, and toward the next generation of farm policy.

The written record of this effort—almost 4,000 pages—has been presented to your staff. It is my hope that this extensive and thought-provoking record will be of assistance to the administration and the Senate and House Agriculture Committees in formulating sound future farm legislation, particularly the 1985 farm bill.

I must emphasize—and this is important—that these are not studies, Mr. Chairman. Rather, contained within these 4,000 pages, are the ideas, the concerns, the hopes, and the aspirations of farmers and ranchers throughout America, agribusinessmen, conservationists, bankers, consumers, rural main street merchants, commodity and farm organizations, Government officials, university experts, and six former Secretaries of Agriculture, among others. I contend that is the most comprehensive agriculture hearings ever held. I neglected to mention that we had the news writers, people like Orrin Samuelson, who came in and testified, instead of just taking pictures. I want to leave this set of hearing material for you to review.

I cannot possibly do justice here to the contribution of over 200 witnesses who appeared before me. However, I do think the record supports the following principles, which I offer to this committee as guidelines in the formation of the 1985 farm bill.

A whole new program for agriculture must include: First, better targeting of farm program benefits. Limited farm benefits must be targeted to the average-sized, full-time family farmer. We all know that we will not be able to spend billions of dollars more on agricultural programs. Instead, we must get more bang for the buck, and I believe that we can accomplish this by scrutinizing possibly the $50,000 payment limitation.

Second, we need more aggressive export programs. Today we are competing in an international market. No longer is the United States the only supplier of food for the world. Quite to the contrary, today we have competitors who are willing and able to take our position in the world market.

Since U.S. farmers must export over 65 percent of their soybeans, 55 percent of their wheat, and 35 percent of their feed grains, the Federal Government can help by providing to the buyers of U.S. grain adequate credit. Additionally, the Government can aggressively pursue long-term grain agreements with foreign nations, promise to lift restrictions on the sale of agricultural goods to certain nations, and promise to never again impose any kind of embargo.

Federal farm policies which tend to price our commodities out of the market, like high price support loan rates, must be recognized for the great harm they do in the long run. Farmers and politicians must begin to realize that high loan rates hurt farmers in international markets, set a price floor under which our competitors can strip our markets away, and set farmers in Canada, Europe, Australia, Brazil, and other countries to jumping for joy.

Third, we need fierce provisions to battle foreign subsidies. If we ask America's farmers to unleash their competitive clout, Washington must spare no muscle to counter unfair foreign subsidies. There is no doubt in my mind that South Dakota wheat producers, Nebraska ranchers, Iowa corn farmers, Indiana soybean producers, Mississippi cotton farmers, and every other major agricultural commodity group can defeat the French, Brazilian, or the Swedish farmer in a game of efficiency and production. However, a wheat farmer from Winner, SD, cannot defeat the Government of France, Brazil, or Sweden in a game of subsidies.

To even up the score for American farmers, Washington must stand ready to counter subsidy with subsidy. Perhaps an export PIK Program could be utilized. The Egyptian wheat flour sale that the United States orchestrated a few years ago is a perfect example of the muscle Washington must exert. As my colleagues will remember, U.S. Trade Ambassador Brock and Agriculture Secretary Block added free Commodity Credit Corporation grain to other grain to recapture from the French the Egyptian flour market. In my opinion, we have to do more of this.

I am not advocating a trade war, but I think we must let the world know that the U.S. farmer is willing to compete in a free market if the rest of the world will only let him. If not, the world should know that Washington's grain pockets are wide and deep when it comes to countering subsidies. I commend you, Mr. Chairman, for including tough antisubsidy provisions in your bill and I hope that they will be retained.

Fourth, maintain target prices. I simply cannot accept the administration's proposal to cut target prices. More importantly, the average-sized U.S. farmer will not survive if the administration's plan is approved. Perhaps if we fully implement and succeed with the other provisions I am outlining here, prices will rise to profitable levels. Until then, the average U.S. farmer—and ultimately the main street businessman and rural America as a whole—cannot afford to receive less during these difficult economic times.

After all, Mr. Chairman, budget exposure is in a very real sense the farmer's insurance policy against arbitrary and capricious Federal Government actions such as embargoes and price freezes.

Fifth, get the tax-shelter investor out of agriculture. Those individuals who are more interested in farming the Tax Code than in producing food and fiber should be denied Tax Code benefits. Legislation I have introduced, S. 244, would limit the amount of off-farm income which could be sheltered by farm losses.

These so-called "gentlemen farmers" who farm the Tax Code are in direct competition with the bona fide farmers who we are trying to save and protect. Gentlemen farmers compete for and drive up the price of farm and ranch land, add to our surplus production problem, discourage new and younger farmer entry into the agricultural profession, and sometimes farm marginal lands, thus adding to our soil erosion problems.

Sixth, deny all Government payments to sodbusters. Those who plow virgin grasslands and destroy our topsoil should be denied any and all Government farm benefits. These sodbusters add to our surplus production and soil erosion problems. I for one advocate a very tough position toward these individuals and urge this committee to disqualify for program benefits the entire crop base of a producer if he plants any commodity on newly plowed fragile lands.

Seventh, overall Farmers Home Administration programs. FmHA has lost sight of its original purpose. Congress has increased farm operating and ownership loan limits to ridiculously high amounts—especially when one bears in mind that FmHA's original purpose was to help the beginning, small farmer. Given the fact that we are going to have limited resources, I propose that direct and guaranteed loan limits be reduced and that the number of years which farmers can receive loans from FmHA be strictly limited.

As I see it, Mr. Chairman, this committee and the Congress has basically three choices regarding future farm policy: Do more of the same, do less of the same, or do better with less. In my opinion, doing more or less of the same is not the answer for either farmers or taxpayers. We must do much better with less by implementing farm policy changes like those which I have outlined. I know that under your leadership, Mr. Chairman, this Congress will be given the vision and the competence to do better.

I thank you.

The CHAIRMAN. Thank you very much, Senator, for a fine statement.

Senator Nickles.

STATEMENT OF HON. DON NICKLES, A U.S. SENATOR FROM OKLAHOMA

Senator NICKLES. Thank you very much, Senator Helms.[1]

Mr. Chairman and members of the committee, I sympathize with you because I realize and recognize that you have a very difficult and arduous task. I think we have got three big challenges before us this year in Congress. One that is certainly first and foremost in my opinion is the budget deficit. To get that down is going to be difficult and we are probably going to have to make cuts everywhere, and as Senator Pryor indicated, in defense. And I would agree with Senator Dole that we are going to have to make cuts in every area, even in our own backyards, which includes agriculture as well. So it is going to be difficult.

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[1] See p. 370 for the prepared statement of Senator Nickles.

In formulating the farm bill, getting a consensus is going to be difficult. I look forward to working with the committees, hopefully in a bipartisan way, so we can fashion a package that will help American agriculture.

American agriculture is in trouble, there is no doubt about it. Past farm policies have failed. They have not maintained farm income, they have not contained production, and by all means they have cost a lot of money. The result is we have a lot of farmers that are in terrible shape and we need to help them.

A lot of the problems that farmers are faced with today are a direct result of actions that have been taken in Washington, DC. Instead of helping farmers, in many cases, some of our policies have not helped.

To illustrate the plight of the farmer, I have with me, Mr. Chairman, eight pounds of Oklahoma Hard Red Winter wheat. These eight pounds will produce 10 loaves of bread. Now, for this the Oklahoma farmer gets 44 cents. In other words, Senator Pryor, he gets 4.4 cents out of a dollar loaf of bread. So the Oklahoma farmer and farmers throughout this country are probably the best deal consumers have anywhere in the marketplace. I think it was illustrated earlier that the average American consumer spends something like 12 to 16 percent of disposable income for food. Well, that is a great buy. It is a great deal for the consumer.

But farm prices are too low and they need to be increased, and how can we get them increased? As was said before, part of the problem that the farmers have had have been directly a result of Washington, DC. Farmers in Oklahoma and Kansas did not vote for embargoes that denied them their marketplace. Some say it was political and did not make much difference. In Oklahoma, Senator Pryor, we export 80 percent of our grain, so if you close off major markets you have just put people out of business.

You say the embargo was lifted in 1981. It was, but in that intervening period, that couple of years, a lot of countries went out and broke new ground. They expanded to fill that void. They filled it and we became a supplier of second resort, instead of the primary grain supplier in the world, and that has cost us and costs us today.

The No. 1 thing we could do for American agriculture in my opinion would be to balance the budget. I have not had every farmer tell me they want the Federal Government to help write their interest checks. I have not had every farmer say, well, we just need more and more debt. But I have had almost every farmer, without exception, say we have got to get the deficit under control, we have got to balance it because you are pricing us out of the world marketplace. These deficits are enormous. Enormous deficits increase the price of the dollar, they increase interest rates. Now you have the interest rates a lot higher than inflation, so now they are losing ground.

In the past, Government policies were just the opposite. We had rampant inflation and we had lower interest rates, and so it profited to go in debt, it made sense and you saw farm debt go up from

$50 billion 15 years ago to $215 billion this year. So more debt is not the solution. We have got to get better prices. We have to be able to sell overseas.

Domestic consumption alone cannot absorb our production—and a lot of the discussion that you will be hearing will talk about a policy that probably will push more and more toward just producing for America. That would kill Oklahoma because, as I said before, we export 80 percent of our grain. We are dependent on those international markets. We have got to get a dollar that we can live with.

The price of the dollar, if you go from 1972 to 1980, continued to decline substantially. If you look at 1981 up to 1985, as it is today, it is at an all-time high. That makes it very difficult, Senator Zorinsky, for us to be able to compete internationally. You know it and I know it. We also know that part of the fault is that, yes, the interest rates are too high and interest rates are too high because the deficit is too high, so it is all tied together—the entire economy.

I think we all probably agree on the causes of the problem. Your challenge today is to find some solutions. I congratulate Senator Abdnor for his statement. I listened with interest and we have many things in common, and my guess is that Democrats and Republicans will have many things in common. We realize that you, Mr. Chairman, have the difficult and I hope successful task of putting together some of the pieces to where we can formulate an agriculture policy that will assist agriculture, instead of hurting agriculture, and that is a challenge.

I also hope that we take a longer range viewpoint, instead of just focusing on what is going to happen this month or next month. I think that is important as well.

I have several pieces of a proposal I will submit. It is in no way comprehensive. It is in no way a solution or a panacea for all the farmers' problems. I am not sure that the total solution to their problem lies in Washington, DC, either.

I would like to throw out several elements for your consideration. One—and this is one that I have not heard anybody talk about, Mr. Chairman, but I think it is important—the current farm program is pulling farmers in two directions. It encourages farmers not to plant through acreage reduction efforts. Yet, the program incentives encourage farmers to plant on all remaining acreage, resulting in excess supply. In the wheat program, farmers have to produce on all non-set-aside acres or 70 percent to maximize program benefits.

One of the changes I propose is that we guarantee the base so the farmer does not have to produce just to keep his base. Senator Zorinsky, if you had a Nebraska wheat farmer, he would be allowed to put it in alfalfa, or he could put it in some other type of commodity without fear of losing his base. You have a lot of farmers today that are producing to keep the base, and those very crops they are producing to maintain their base are many times the crops that we have in surplus. This adds to the surplus instead of allowing a better production alignment and better freedom for the farmer to be able to help himself.

As I mentioned, they have to produce that full 70 percent to keep that base and to get the maximum program benefit. I would propose that we reduce that level to 50 percent. If the crop was produced on 50 percent of the guaranteed base, he could get the program benefits and then he could do anything he wanted to do—hay, graze, plant alfalfa or whatever on the set-aside and other acreage, without fear of losing his base. I think the annual base adjustments have not worked to our benefit. If you look at the total base acreage, it has continued to increase. The adjustments have not worked in order to bring down production.

I would agree with Senator Abdnor as far as having a more market oriented loan rate. I think in some cases loan rates have encouraged competitors to expand production. They have helped and actually assisted some of our competitors internationally more than they have assisted American farmers.

I would also echo his concern or my reservation or lack of support for the administration's sudden change on target prices. I think in this intervening period that change could be quite devastating to agriculture.

Very important, if not extremely important is the targeting of benefits. Again, Senator Abdnor mentioned it. I heard some of the other panelists today mention it, but we do need to target the benefits. In my opinion, we have probably spent too much money and a lot of that money has been going to farmers who do not need it. Senator Dole mentioned the case of the big farmer who received $3 million. We have heard of the $1 million, and so on.

I think we do need to structure the program to try and help the family farmer, to try and guide him. The budget is one that we do have a finite or a limited amount of resources. I think you will probably also have to come up with a bill where you can actually define the total cost of the program. Nobody estimated that the cost in 1983 was going to be $21 billion. The estimate for 1985 originally was $7 billion, and now it is $15 billion. So we have to come up with more definable, concrete, knowledgeable ways of figuring out the cost of these programs.

A couple of other provisions that I hope you would consider: One that I would propose would be a 10 percent cropland base and permanent conservation program. Another one would be, as Senator Abdnor alluded to also, a strong sodbuster provision. It makes very little sense for the taxpayers to go out and subsidize additional production in cropland that is highly prone to erosion and again expanding the base in areas where we really do not need the additional crop production.

Mr. Chairman, one final and maybe redundant point, but I think exports are extremely vital. I do not think we can afford to lose these export markets that we have dominated for the past several years. I see that as a real serious threat if we make some mistakes.

One of the provisions that I hope this committee would seriously consider is legislation that I have introduced separately, the so-called Agricultural Barter bill. In this country, the United States, the CCC now has agricultural commodities in excess of $7 billion. Now, the National Defense Stockpile estimates that we need for strategic materials of over $10 billion, materials that we do not have in this country.

Well, we cannot afford, in my opinion, to give all of our food away, but we could barter. We should trade some of our surplus commodities, whether it be grain or whether it be nonfat dry milk or butter or whatever, in exchange for some of the strategic minerals that we need for our defense purposes or perhaps, for other industry purposes.

A lot of those countries that have those minerals have no money. They are hungry, they are starving, they have populations that do not have enough food, but they do not have the money to pay us, so right now our option is we either give them the food or we loan them the money and they cannot pay back the loan.

Instead of doing that, let us exchange. We have surplus commodities, they have a mineral that possibly could be developed, if it is not already developed. Let us exchange. Let us do a little old-fashioned bartering and help the economies of both countries. Again, I think that would help us.

If we could get rid of these stockpiles that we have—ending stockpiles that depress prices—and every farmer in this room knows it, we could take downward pressure off of commodity prices. That is one of the reasons why from this amount of wheat that will produce 10 loaves of bread, the farmer will only get 44 cents. This discrepancy exists partly because we have got something like 1.5 billion bushels of wheat stockpiled today. We need to move those stockpiles and let us exchange it for some of the strategic minerals that we desperately need for our country.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Nickles, that is a very fine statement on your part. You are right, it is going to be tough to weed through all of the verbiage, and there are a number of truths that cannot be evaded. Bob Dole underlined it very well, and he and I have been saying for a long time that the best farm bill that we could write would not even have to have the words "farmer" or "agriculture" in it, if we balance the budget and get the interest rates down, and if we get the fair play in the world markets.

The President sent me over to Geneva a couple of years ago to take a message, and that was that the right of our trading partners to swing their subsidies ends at Uncle Sam's nose. Now, I want the State Department and all others who have anything to do with treaties and other economic arrangements, trading arrangements, to bear in mind that their first duty is to the American people and to the American farmer, and if we can write a farm bill with that kind of understanding, then I think we will succeed. But we cannot repeal the basic laws of economics, and we certainly cannot repeal the law of arithmetic. It is simple arithmetic and we have got to face up to it.

Senator NICKLES. Mr. Chairman, I would ask that my statement be entered in the record.

The CHAIRMAN. It certainly will, and I thank you very much.

Senator NICKLES. Thank you.

Senator DOLE. Mr. Chairman, could I just ask one question about that pile of documents? Is that based on, what, a 2- or 3-year period?

Senator ABDNOR. Two and a half years at least, from the day I realized that not much attention was being paid to agriculture. I had all these great economists come in to testify, one after another, everyone from Greenspan to Heller, and not one of them mentioned agriculture and I got a little vocal. I found that agriculture was being neglected and I decided to do something about it. As I said, the ex-Secretaries of Agriculture testified before me twice. Incidentally, they talk differently after they get out of office. They are their own people once again and they can say what they want to.

I would recommend that the committee visit with Dr. Tosterud, a young economist on my staff, and kick around some of the ideas which were suggested by over 200 witnesses.

The CHAIRMAN. Thank you very much, Senator Abdnor.

Our first witness will be Bob Delano, who is president of the American Farm Bureau Federation. While he is approaching, I note the arrival of the distinguished Senator from Oklahoma, Mr. Boren. We would be glad to hear from you any statement you may have.

Senator BOREN. I know we have a lot of witnesses, so I will defer.

The CHAIRMAN. Well, we would be glad to hear from you any time, Senator.

Senator BOREN. Thank you.

The CHAIRMAN. Mr. Delano, we welcome you, sir.

STATEMENT OF ROBERT B. DELANO, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. DELANO. Mr. Chairman and members of the committee, my name is Robert B. Delano, and I am a grain farmer from Virginia and also serve as president of the American Farm Bureau Federation.

Senator DOLE. May I just say before you start, I have to excuse myself to go over and get the Senate started. They are not doing anything over there.

Mr. DELANO. Yes, sir.

Senator DOLE. It may be a good thing we are not.

Mr. DELANO. I appreciate the opportunity and I will shorten the statement. Hopefully the statement will be entered in the record, but I will shorten it as best I can, Senator.

The CHAIRMAN. Your full statement will be included in the record and your summary will be fine.[1]

Let me ask the audience, can you hear the witness?

Mr. DELANO. Maybe it is best that they cannot. [Laughter.]

The CHAIRMAN. In any case, we must proceed and we will try to see what we can do about the sound system. This is the first time the Agriculture Committee has ever met in this room. We obviously moved here so that we could accommodate as many visitors as possible.

You may proceed, sir.

Mr. DELANO. We believe that sound farm policy must be based on letting market forces provide incentives between producers and consumers. It is imperative that farm programs adjust to the signals from the marketplace while giving assistance for orderly marketing, income supplement, production adjustment and export market share expansion as we move back to the market system for U.S. agriculture.

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[1] See p. 372 for the prepared statement of Mr. Delano.

We recognize that farm program policy and legislation will not improve all of the conditions that have exerted a negative impact upon agriculture in recent years.

The prescription for fundamental and lasting benefits for agriculture is dependent upon a commitment to fiscal responsibility and reduced overall Federal spending in order to promote economic growth through lower interest rates, more favorable exchange rates, and increased U.S. farm exports.

Therefore, the Farm Bureau proposes policy actions in all issue areas that will allow producers the opportunity for profit in agriculture. Improving net farm income is the Farm Bureau's most important goal.

Our specific remarks relative to the farm bill, again by commenting on agricultural exports, because of their importance to improve farm income. I serve as a member of the Agricultural Trade and Export Policy Commission. That commission has had several meetings at which we have discussed the seriousness of the current export situation now facing American farmers and ranchers. We hope to develop some workable means to address some of our export problems as the commission's work moves along and to furnish our recommendations to this and other committees of the Congress.

In the meantime, I would like to share with you some thoughts regarding certain ways that some of the problems facing us in world markets might be addressed in a practical manner.

Two traditional ways of enhancing exports have been through the judicious use of CCC export credits and through the use of Public Law 480 or Food for Peace Program. These programs should be continued and improved. As a member of the Carlucci Commission on Foreign Assistance last year, I recommended that Public Law 480 export tonnages be doubled over present levels and that multi-year funding be made available to Public Law 480 recipient countries.

In view of the need for food, which has been made worse by the African political and famine situation, I believe that a much stronger Public Law 480 program is justified and will lead to better U.S. cash markets as economic development improves in recipient countries.

Regarding CCC export credits, it is regrettable that the CCC credit revolving fund, which was part of the 1981 farm bill, was never funded and activated. There are still valid reasons for incorporating the revolving fund in the 1985 farm bill with funding made available to make it an effective export tool.

An intermediate CCC export credit program is needed to take care of export credit needs for terms of 3 to 7 years as provided for in the Agricultural Trade Act of 1978. This legislation should be more fully utilized.

The blended credit program, which unfortunately has been saddled with the requirements of the cargo preference law, needs to be made a part of the new farm legislation with an exemption from cargo preference. As a matter of fact, all agricultural exports should be exempted from cargo preference requirements whether commercial or Government assisted.

There are other ways of financing a strong merchant marine without harming agricultural exports. We should not reduce our farm exports in our efforts to have a stronger American-flag fleet. The Farm Bureau will strongly support legislation to exempt agricultural commodities and products from the cargo preference law.

There may be some barter opportunities with some countries that need food and have oil or other materials or commodities that we need. We should not foreclose any such opportunities.

Regarding trade negotiations, we must give our trade negotiators the tools they need and our strong support to gain better market access and to resolve outstanding unfair trade practices such as export subsidies, which have eroded U.S. overseas markets. In this respect, we would support what might be called a bonus export program.

Under such a program, bonus tonnage of farm commodities and products would be made available from Federal farmer-held reserve stocks and CCC owned commodity stocks to lower U.S. export prices to offset the advantage of competing countries which subsidize their exports.

Mr. Chairman, these are some recommendations that we would like to see examined and considered by this committee as the export title of the 1985 farm bill is written.

I believe that in previous legislation the production side of the equation has been given more attention than the export side. In the new farm bill, we need to focus strongly on the export title.

U.S. farmers are tired of taking most of the world's agricultural production adjustments while competing countries expand their production and export market share. We must be more aggressive in export markets. This will require the devotion of considerable resources to exports, but it will be cheaper in the long run than expensive acreage reduction and storage programs.

Loan rates: We support loan rates that are tied to a 3- to 5-year average of market prices for the basic export commodities—wheat, feed grains, cotton, rice, and soybeans. This recommendation recognizes the general success of the price-support loan programs for both soybeans and cotton and suggests that the concept should be extended to include wheat, feed grains, and rice. We believe, however, that the loan rates should not be adjusted by more than 10 percent in any year.

We need to adopt this kind of flexibility in establishing loan levels so that major export commodities can adjust to world supply and demand conditions. Since the domestic market is growing very little, we must sell on the world market if agriculture is to continue to grow.

Adjusting our loan levels according to market conditions is the first policy step to insure competitiveness in world markets. It provides a degree of uncertainty to our competitors and indicates that the United States will not continue with farm programs that subsidize farm and export subsidy programs of our competitors.

Target prices: The Farm Bureau supports the use of target prices in the manner in which this policy was originally included in farm programs—as an income supplement to farmers. We support continued reliance on target prices and deficiency payments throughout the 4 years of a farm bill.

We propose to freeze target prices for 1986 at the 1985 level. In 1987, we would tie the target prices to a percentage of the average market price used to determine the loan rates. However, target price adjustment would be limited to no more than 5 percent in a given year.

This method of target price adjustment provides a transition period for producers. Freezing the target prices for a year will allow a brief opportunity for export programs to begin to function so that producers can evaluate the market conditions for the 1987 crops. Adjustments that might occur can be affected in an orderly manner.

We would support a $50,000 limitation that would apply to deficiency payments only.

Acreage reduction programs: We believe that acreage reduction programs should be required when carryover supplies are excessive. Much of the political pressure that accompanies discretionary authority for acreage reduction programs can be avoided by using specific levels of carryover supplies to trigger the requirement for an acreage reduction program.

Farmer-held grain reserve: We favor the elimination of the farmer-held grain reserve. Rather than being the orderly marketing tool that it was intended, or serving as some sort of emergency food reserve, the farmer-held grain reserve hangs like a cloud over the market. Its presence has caused increased production by our competitors and reduced domestic and foreign use of U.S. wheat and feed grains.

The Farm Bureau has long understood the importance of orderly marketing and the role of the regular CCC Loan Program. The Federal farmer-held reserve program was used to try to prop up grain prices to avoid Treasury outlays. In the process, our market shares have eroded.

Farm Bureau delegates voted to extend the regular 9-month loan for another 9 months in place of the Federal farmer-held reserve program. Locking U.S. grain away from the world markets—from U.S. and world livestock producers—until the market reached Government-set prices, proved to be very unsound economics and costly to taxpayers.

The Dairy Program: We suggest continuation of the Dairy Purchase Program but believe that the support rate should be tied to two measures of market conditions. First, we believe that the support price should be determined using an average of the previous 3-years all milk price. This level will be adjusted effective October 1 of the marketing year.

Second, we believe that the basic support price should be adjusted if Government purchases are not in accordance with desired levels. The Farm Bureau proposal will include specific adjustments in terms of a percentage of the support price that would be required when purchases are at any given level. This measure will also avoid problems associated with discretionary authority for adjustment of support prices.

Other commodity programs: Sugar, peanuts, wool, and mohair provisions of the 1981 act will remain largely unchanged in our proposal. These programs have not been costly to taxpayers. We therefore would not support substantial changes in these programs.

Conservation reserve and sodbuster provisions: Our proposal would include provisions for a conservation reserve program for owners and operators of erosion-prone land to assist them in conserving soil consistent with budgetary limitations. Contracts of 7 to 15 years would be offered under which producers would convert erosion-prone cropland to less intensive uses such as pasture, permanent grass, legumes, or trees.

We would also support using severe measures to discourage producers from plowing fragile land. Our proposal will declare any producer who brings fragile land into production ineligible for any farm program benefits on any crop in his entire farming operation.

Mr. Chairman, I would pledge to you that we would work with the committee in any way possible to help you in designing a farm bill.

Thank you, sir.

The **Chairman**. You always have and we appreciate your testimony. I was interested in the remarks that you were making. I want to say that you have presented recommendations that are entirely consistent with a little farm bill that I am going to introduce today, the administration bill will be on the markup sheet, but so will mine. Mine is going to contain a very strong export title, and I agree absolutely with you, that we have to get that thing nailed down, otherwise much of anything else we try to do will not work.

Senator Zorinsky, do you have any comment, or any other Senator?

Senator **Boren**. Mr. Chairman, I gather, Mr. Delano, then that you are not in agreement with the loan rate and target price provisions of the administration bill?

Mr. **Delano**. Relative to those points, no, sir.

Senator **Boren**. The Secretary has estimated that net farm income under the administration proposal would fall to 20 percent this year net agricultural income if the proposal were adopted as is. What kind of impact do you think that would have on the country if we had a 20-percent decline in net farm income this year?

Mr. **Delano**. Well, any year you have a 20-percent decline in farm income, you are going to have a negative impact in the country certainly, Senator.

Senator **Boren**. I gather that the Department's latest economic report, which is due to be released in the next couple of days, indicates that of our 686,000 commercial family farm-size units, we need a 32-percent increase in commodity prices now prevailing in order for them to have a positive cash-flow; 686,000 are now experiencing negative cash-flow. Do you think the proposals you have outlined would help us get that kind of an increase so we can get a positive cash-flow? All of us have been dealing with this credit thing the last few days, but all of us recognize that what we need ultimately is an opportunity to make a fair return. Do you think, with any of these proposals that we are looking at, anything that will help us give these farmers a a positive cash-flow; I think we all know that if we do not begin to have a positive cash-flow one of these days, that no amount of stopgaps are going to save the agricultural sector as we know it.

Mr. **Delano**. Senator, these things are not going to happen overnight, as you know. We are in a period of restructuring in U.S. agriculture. We went through that inflationary period and we are in a period where the economy is causing agriculture to make some adjustments. It is not going to happen overnight. It is going to be a gradual adjustment over a period of time, so it is going to take a few years. No, sir, it is not going to happen—even under our proposal, it is not going to happen overnight.

The **Chairman**. Thank you very much.

Our next witness will be Ben Morgan, who is chief executive officer of Dairymen, Inc., and chairman of the board of the National Council of Farmer Cooperatives, and accompanying him will be Wayne Boutwell, who is known to most of us and who is president of NCFC, in Washington.

Mr. Morgan, your entire statement will be made a part of the record and you can summarize as you wish, but we do not want to limit you in expressions you care to make.

STATEMENT OF BEN F. MORGAN, CHIEF EXECUTIVE OFFICER, DAIRYMEN, INC., AND CHAIRMAN OF THE BOARD, NATIONAL COUNCIL OF FARMER COOPERATIVES, ACCOMPANIED BY WAYNE BOUTWELL, PRESIDENT, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. **Morgan**. Thank you, Mr. Chairman. I appreciate this opportunity to testify and I appreciate you including my entire written statement, as I will be as brief as I can in summarizing the contents.[1]

I am Ben Morgan, chief executive officer of Dairymen, and chairman of the board of the National Council of Farmer Cooperatives. The council represents about 90 percent of the local farmer cooperatives in the nation.

I commend you for conducting this hearing and stimulating the debate on farm policy.

On January 21, 1985, the National Council's Agriculture and Trade Policy Committee adopted a statement which begins as follows: "In 1985, new farm legislation should be based on policy objectives which reflect the changing global economics of agriculture today. In addition to the traditional farm policy goals providing: "Support for farm income, maintaining adequate supplies of food and fiber, and encouraging orderly marketing of farm products; we need to add a fourth objective, and that is to ensure that U.S. agriculture is competitive in world markets."

While we pursue international competitiveness, we must also recognize the severe economic stress now facing many family farmers.

Mr. Chairman, we have heard a great deal about the farm credit crisis, and it needs attention. But the credit crisis is a symptom of an underlying root cause, and that is inadequate farm income.

Therefore, our primary goal should be to enhance farm income. Many argue that to do this we must be price competitive in international markets. We concur that steps must be taken to help us regain lost market shares but in a way that does not put the full burden of competing against other governments on the backs of farmers.

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[1] See p. 375 for the prepared statement of Mr. Morgan.

We must also recognize that world markets have been distorted by external factors such as grain embargos, the overvalued dollar, and unfair foreign trade practices. If the Government is going to saddle farmers with these adverse conditions, then the Government has a responsibility to help farmers overcome the negative impacts.

In developing the 1985 farm bill, we believe that certain concepts are very important. Specifically, nonrecourse loan rates and target prices should be maintained as the means of providing financial support. Loans should be operated as marketing loans, which farmers would be allowed to repay based on the loan rate value or world market level, whichever is less. This will protect farmers while allowing U.S. commodities to move through market channels at competitive prices.

The payment limitation should be discontinued.

A long-term conservation reserve should be authorized to carry out multiyear retirement of fragile, erosive land. Such a program will help conserve our natural resources and bring supply into better balance with demand.

We believe very strongly in fair trade. Unfortunately, trade has not been fair.

We must respond by using our agricultural abundance to expand market share and to counter unfair trade practices. Aggressive action is needed now. At the same time, we need to encourage long-term market development.

Mr. Chairman, it is essential that an aggressive trade title be included in the 1985 farm bill. Specifically, the legislation should provide for a spectrum of export credit programs tailored to fit the diverse needs of recipient countries. Surplus commodities should be used as bonus products and blended with U.S. aid programs to encourage their use.

At the same time, such actions should not displace any commercial sales which would otherwise have been made. Programs should be designed to move those nations from aid to trade in their relationship with the United States. New credit programs to be included would be a continuous line of credit guarantees and an intermediate export credit guarantee program. The Public Law 480 program should be extended and improved, with an emphasis on multiyear programming and infrastructure development in recipient countries to allow greater purchases of U.S. agricultural commodities. An export PIK Program should be authorized and implemented.

In closing, Mr. Chairman, I would like to say that there are not many new ideas in domestic farm policy. However, the marketing loan concept is a new approach which we believe has great promise. We strongly support it as a means of enhancing farm income while allowing U.S. products to be competitive in world markets.

At this point, Mr. Chairman, I would like to call on our council president, Wayne Boutwell. to demonstrate some examples of these economic concepts.

The CHAIRMAN. Wayne, before you begin, I think you are going to—well, first of all, let me guarantee you that there is going to be a trade title, and a strong one. I think you will like the one in the bill that I shall introduce today. We are singing from the same hymn book on that. I appreciate your comments.

Mr. Boutwell, it is good to see you again.

Mr. BOUTWELL. It is good to see you, Senator. Thank you very much for this opportunity to make a few comments. I do have a statement.

I have a couple of charts, and I hope everyone can see them. I would like to run through them very, very briefly and then entertain some questions.

The first chart, Mr. Chairman, illustrates what we believe to be the major debate in agricultural policy this year, and that relates to who pays the bill for American agriculture being competitive on the international market.

The red area there—represents the loss in income or cash receipts for wheat and corn farmers associated with the administration's farm bill in terms of the drop in the support structure that it proposes.

The solid white line across the top represents the cash receipts for those two commodities areas under a continuation of the current program. As you can see, neither one looks very good, Mr. Chairman. The continuation of the present program is going down for a very good reason, and that is because we are continuing to lose market shares and we are cutting production at the same low price and it does not do any good. It just is a slow death for American agriculture.

But under the administration's proposal, it is a death but it is a little more rapid death, as you can see by the drop in those curves. We believe that the debate this year is going to center on who pays for that particular area right there, how much support are you going to provide for the farm economy across the top as prices drop to be competitive on the international market. We believe that is the central question for debate on the farm policy this year, what portion is paid by the public and what portion comes out of the pockets of farmers.

Clearly, you have a structure of American agriculture going in at the beginning of this and, depending upon which way you go will depend upon what the structure of American agriculture looks like when it comes out the other end. If you put it through what we consider to be a substantial dip, we heard 20 percent reduction in farm income—given the financial stress that exists out there in the farm economy right now—then clearly there will be some further erosion of the financial health of American agriculture. However, when you finally come out the other side, clearly you are in much better shape. But the question is who can survive.

Let's turn now to the second chart, the proposal that our chairman laid out, which is called the marketing loan proposal. It is one that would allow the farm economy to be price competitive, but at the same time it would provide farmers with a safety net.

Again, looking at the chart, the shaded area on the left there represents the current program. Very simply, when the market price says it should clear below the loan rate, the Government moves in and soaks up the additional commodities in order to hold that price at the loan rate. What that does is tell the rest of the world that we are not going to sell for less than the loan rate, and so it is very easy. If I was a competitor of yours and you told me your bottom line, I could beat you by a nickel and take that sale. It is really that simple.

So the Government has a cost associated with pulling those commodities off the market and they have carrying charges, storage costs. We tend to never sell them back on the market; we usually give them away, which means that they wind up being a total cost to the Government.

Our recommendation is to take the cost of that kind of a support to the farm sector and move it around to the price side of the axis and simply discount that loan back to the market price. By doing that, you maintain the same level of support as enjoyed by the farm economy under the current program, but yet the market is clearing underneath so that you are meeting your competitors in the international market.

We simply believe that this is the way to maintain the support for farmers while at the same time being competitive on the international market and regaining and maintaining our market shares.

Mr. Chairman, that concludes my remarks. We would be glad to respond to any questions.

The **Chairman**. Senator Cochran.

Senator **Cochran**. Mr. Chairman, thank you.

As I understand current law, the Commodity Credit Corporation cannot sell any of the commodity it holds at less than 115 percent of the loan rate. Is that right?

Mr. **Boutwell**. That is correct.

Senator **Cochran**. So what you are proposing is to make a fundamental change in the legislation under which the Commodity Credit Corporation is authorized to market the commodity that it ends up with when farmers forfeit that loan.

Mr. **Boutwell**. The Commodity Credit Corporation, Senator Cochran, would not be marketing. The farmer would be marketing his own grain. The farmer would receive—let us put some hypothetical numbers on there. Let us say the marketing loan is a $10-per-unit loan and let us say that the market price goes to $9 per unit. The farmer would be allowed to repay that loan at $9, it is then his commodity move on the market any way he sees fit, and so you achieve the same results but the Government never takes over the inventory to start with which they then have to try to sell.

Senator **Cochran**. What does the Commodity Credit Corporation under your proposal do insofar as participating in the marketing or the administrating of the loan program? Does it have any role under your proposal in administering the loan program?

Mr. **Boutwell**. The loan, Senator, would be made the same as current law. In other words, the Commodity Credit Corporation would provide the loan identically the same as it does under the current law right now. Beyond that, the Commodity Credit Corporation, beyond setting the repayment level based on world market price conditions, would not be involved in the marketing of the commodity at all.

Senator **Cochran**. Are we going to get a group descending on us if we start out in this direction claiming that we are undermining the marketing ability of grain dealers or any group like that? Who is going to end up complaining about this approach? I do not think farmers will. I think it is going to be good for production agriculture.

Mr. BOUTWELL. The farmers are not impacted by this at all because they net back out the same level of support as the current law. The traders involved should be for it simply because they are price competitive on the international market and now can start moving some of the volume that we have not been able to do under the current program because we are priced out of the market with the loan rate.

Senator COCHRAN. What I wonder about is why did Congress ever include in the law a requirement that Government-held grain could not be marketed for less than 115 percent of the loan rate?

Mr. BOUTWELL. Farmers did not want the Government competing with them in the marketplace. When prices started to improve, they did not want the Government to come in and dump products on the market which would then result in a further decline in market price.

Senator COCHRAN. We are just taking the CCC out of the marketing business then under this proposal?

Mr. BOUTWELL. That is correct.

Senator COCHRAN. I think it is a fascinating proposal and certainly merits the careful consideration of this committee. I thank you for being here and appreciate your testimony.

The CHAIRMAN. Senator McConnell.

I have been derelict in not welcoming to the committee two new members. Senator Harkin had another meeting to go to. Senator McConnell, we welcome you, sir.

Mr. MCCONNELL. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Boutwell, would your plan be subject to payment limitations?

Mr. BOUTWELL. In the chairman's statement, I believe, Mr. Chairman, he indicated that we oppose payment limitations.

The CHAIRMAN. I am sorry, I did not hear.

Mr. BOUTWELL. In our statement, we oppose payment limitations, particularly with regard to the discounted loan party. If you put payment limitations on the discounted loan part, then it will have an impact on farmers.

The CHAIRMAN. Very well.

Any further questions?

[No response.]

Thank you very much.

Mr. MORGAN. Thank you, sir.

The CHAIRMAN. Very fine testimony.

Mr. Corky Jones, national president of the American Agriculture Movement, from the great State of Nebraska, Brownville.

STATEMENT OF CORKY JONES, NATIONAL PRESIDENT, AMERICAN AGRICULTURE MOVEMENT, ACCOMPANIED BY TOM WILLIS, PAST PRESIDENT

Mr. JONES. Mr. Chairman and members of the committee, I appreciate the opportunity to be here. My name is Corky Jones, and I am from Brownville, NE. I am also national president of the American Agriculture Movement.[1]

I am a farmer. I have three sons farming in my operation with me. We are raising corn, soybeans, cattle, and hogs, losing money on everyone.

We have heard many proposals today and we continue to hear quite a few programs, but the main thing that I am here today to tell you and to hopefully educate some of you that we need a price. Price is the bottom line. There can be no entity anywhere that can continue to operate below the cost of production.

We have just come out of 4 years, all commodities below the cost of production, above our returns, and yet we are being called poor managers. The farms that are being sold today. The lending institutions that are being bankrupt today and closed, the agribusiness closing their doors today, are all being caused by "poor managers", No.

They are because of one thing, we are the victims of poor management that has come down in Government farm policies from this institution. We must have leadership to correct this. We know we cannot all be right, but to continue the failing farm programs we have been under, not just this administration but the past, is suicidal not only to the sector of agriculture but to the entire U.S. economy.

We do not just have a farm crisis. We do not just have a rural crisis. We have got the U.S. crisis and it is because we have not been fairly treated, the largest industry of this Nation, that of agriculture, the only industry with the ability to perk up the real wealth through profit seven times over.

It is evident that is what has been happening to agriculture because we see unemployment lines, contrary to what many believe, are not getting smaller, and that they are not in our portion of the country. We are seeing foundries, we are seeing industry doors closed, we are seeing people unemployed by this, we are seeing people kicked off the land that are not even amongst those counted as far as unemployment.

You know, out on the farm when we have something wrong we try to find out what it is and we fix it. If we have a sick steer, we call the veterinary and we correct it. We have heard a lot of proposals about phasing out Government farm programs. That would be like us having a sick steer and just shooting the steer.

There is nothing wrong with Government farm programs if they are implemented correctly. Unfortunately, we have not had any implementation of this type of bill. Whenever there is anything wrong out on the farm, why, we try to see what is causing it. I can tell you today that what is causing the problem is because we are producing below the cost of production and this is being guaranteed to us to continue to produce below the cost of production by failing farm programs. Let us look and see what happened. Let us look and see where the solutions are.

The solutions to a healthy economy nationwide, not just the industry of agriculture but nationwide, have always been when we have had parity legislation. The word "parity" should not be one of these frightening words that people do not understand, that we have got to go look at a complicated formula. We are looking at parity simply meaning equality.

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[1] See p. 376 for the prepared statement of Mr. Jones.

You know, in the American Agriculture Movement we always start with the pledge to the American flag. The last line of that is "equality and justice for all." It is way past time that agriculture has been getting equality and justice for all. We have been deprived and treated like second-class citizens.

When we have got problems, there are solutions. Once again, let us go back and see what works well and what worked well is parity legislation. The legislation worked well, at no expense to the taxpayer, for a 10-year period, 1942–52, and there was even a return-plus into the coffers over and above the expense of the program.

The last time we had a decent price and parity pricing for agriculture was 1976. The farmers alone paid over $10 billion in income tax. We are not talking about what that did to the economy when that dollar that was profit perked through the system seven times over, and they paid income tax each time that dollar perked. We have never seen any thing else that is going to correct this.

We can talk about the Nation's deficit, we can talk about the budget, we can correct the budget. The Nation's deficit is right where it is today because real wealth has been deprived and the only real wealth industry is agriculture.

Solutions—let us go back. We have got solutions which we will submit to you, some of our suggestions today. We are going to have to have parity structure at the loan rates. We are not of the opinion that we need to have the budget exposure we continue to hear about, because 70 percent of parity is where we would start loan rates on all storable commodities. This is paid back with interest, so the taxpayer does not have any reason to scream, nor does David Stockman.

We are looking at increments of increasing the parity loan rates at 2 percent per year from 1986 through 1996, to where we will derive at 90 percent of parity at the loan rates. There will be no deficiency payments, there will be no target prices, there will be no set-aside payments. It is all obtained from the marketplace through loan rates.

We definitely need to address exports. We definitely need to address imports and the out-of-balance situation of our trade deficits. We definitely need to see where the land is going today, and this is another one of the reasons we must face what is going on in agriculture. To continue the administration's methods and the past administrations and the proposal for the new bill is absolutely going to not only annihilate the existence of the middle-class people in agriculture, on the farm, family ranch type operations, and the private enterprise system. But, we are going to annihilate the existence of the middle-class people of America, the people who are going to own the land under a continuation and the failing program that we have just come out of. Under the administration's proposal, there is no person, there is no individual, there is no private enterprise system that can own the land. It is going to go to corporations, outside interests' money.

Farmers and ranchers that are in trouble today. When we hear, there are some farmers having trouble here and some there, then we hear a very, very small percent are actually having problems, this is a myth, many farmers only source of income is from the land, they are the ones in trouble.

I have just completed 77 speaking engagements over 17 States in the past few weeks. The problem is just not lying in Brownville, NE. It is nationwide. Any private enterprise or business, solely deriving its income from agriculture is having problems.

This committee—and I pray that this committee will correct this, look back and see what worked before. Do not accept the whitewash job that is beginning to prevail. Agriculture is the victim of poor management and poor business decisions handed down from this place.

Farmers are here to work within the system. We have learned over the past several years this is what must be done. We have been here all week, with thousands of people from across the Nation, to work within the system to prove that an injustice is getting to monumental stages across the Nation, affecting the citizenry of this entire Nation.

We were slapped in the face yesterday when we were talking about a mandate. We are talking about a mandate from the people, a large mandate, and it was denied. Liberty and justice for all? I do not see that happening. I am a patriotic person and I am a God-fearing person. Most of us in American agriculture, all of us in the American Agriculture Movement are. We are here to offer any assistance we can, to save agriculture and America. We have got to preserve the future of this country.

I would like to turn a little bit of my time over to Tommy Willis, if I may.

Mr. Willis. Thank you. I am Tom Willis, past president of the American Agriculture Movement.

I would like to expand just a little bit on suggestions we have for the farm bill. We have not attempted to try to write a farm bill, because we knew this would be the duty of the various committees and so forth.

Within these suggestions that Mr. Jones referred to, he has referred to parity loan rate, to accompany these would be a mandatory supply management program. We believe that this would have to be done by referendum. Should this be, we would like to see it by farm operators, as a matter of record with ASCS.

To accompany this would also be a 10-percent acreage reduction program, soil conservation. Some of the other gentlemen referred to something similar to this this morning.

We believe that there should be a food reserve, and this reserve should be controlled or released only when there is a national food shortage, and this should be left to the discretion, when it should be declared, I should say, by the House and Senate Agriculture Committees, rather than left to the discretion of the Secretary of Agriculture.

We feel, as already has been discussed—Senator Helms, I notice you have commented on it several times, the import restrictions and so forth. These are some things that must be addressed. On imports, we believe very strongly that any process commingled or anything imported in this Nation needs to be labeled as such all the way to the consumer. We have this on all manufactured goods. If a person buys an item that comes from Taiwan or wherever, or Japan, label it; yet if the housewife goes to the grocery store she does not have any choice, no way to identify and therefore she has no choice.

Another thing that we have seen, we have seen in the case of produce shipped into this country, an awful lot of it has been tested and found to contain such chemicals as DDT, which has been banned for going on 6 years now in this Nation, yet we have produce and products coming out of foreign countries in here that have these chemicals used in them.

The same thing is true for a lot of our red meat, using hormones and so forth that are not allowed in this country, yet they come in, are imported in. So we feel that they should be required to meet all restrictions that we over here have to meet. This is a safety factor for the citizens of this country. Items that cause cancer, if we feed it, it is going to cause cancer, it is fed overseas and is shipped in.

On exports, we feel that we must stay competitive in exports, and we recommend the use of export subsidies, export PIK, adequate credit, interest buydowns, Public Law 480, whatever it takes to maintain our part of the export market. This will be at the discretion of the Congress, the Government, as to just how much we want to export. We know that old adage, I am sure, that with every privilege there goes an equal responsibility. If the Government wants the privilege of exporting a lot of agricultural commodities, they must share some of the responsibility, and I believe this is what maybe you had some reference to.

Also again it has been referred to, we think the loopholes should be closed on a lot of this tax loss farming. We are suggesting the maximum writeoff of $20,000 for nonfarm income.

Conservation—we would like to see the existing programs continued and expanded in problem areas. We do not agree with the phaseout of the soil conservation as has been advocated by the administration. We have one-half of this country blowing away and the other half washing away, and we do not need to come up short on soil conservation.

Farm credit—we would like to see a restructuring of debt, rescheduling on a case-by-case basis to allow the operator the cashflow requirements as necessary for him to continue. The terms of the loan should be established by the county committee with a maximum term of 20 years. We feel that the county committee should be elected by farm operators and shall be functioning loan committees consisting of not less than five people. Three members must be farm operators, and they would be elected. The remaining two would be appointed by the elected members, one of which would be from the financial community, the second one would be some elected official so as to take care of any public housing and so forth that may be involved.

New application for farm loans must be accepted for consideration and any applications for EE, EM, or OM loans not acted upon within 60 days must be automatically approved. It is taking entirely too long to get a lot of these loans processed.

We favor very strongly the continuation of the ASCS. We would need this in order to cover the parts of the program, to administer it as we have suggested.

Mr. Chairman, I thank you.

Mr. CHAIRMAN. Thank you very much, gentlemen.

Senator Zorinsky.

Senator ZORINSKY. Thank you very much, Mr. Chairman.

Corky, it is a pleasure indeed to have you here and I compliment you for a very articulate presentation. I think those of us in this room understand that your comments came from the heart. I know it did not come from any notes because you did not have any notes or prepared text in front of you. I know you are saying it like it is out there, and it is a lot more devastating than many people here understand.

Yesterday in his veto message, the President indicated that only 4 percent of the farmers are in any serious need of help right now. Do you agree with that estimate?

Mr. JONES. He did not read it right, Senator. He forgot the zero behind the four. That is where we are. It is so serious, you cannot believe. We are looking across the land, and that is the reason I spoke of the travels, and I am just one of the many American agriculture movement speakers who go across this land speaking to Ag groups. We are seeing this same thing happening. We have traveled over 38 States thoroughly and the crisis is out there, and the same that happened in Nebraska last evening with the farmer who committed suicide is repeating itself from coast to coast reaching staggering accounts.

My next door neighbor just became one of those statistics. A young man stabbed his father to death in a dispute over a farm. The dispute was brought about by prices and resulted in the annihilation of the entire working family.

What we are seeing today and what we are going to see tomorrow is mass numbers of people out here that have been contacted by their lending institutions only to tell them that they cannot go with them another year. They have been good for year after year after year. They have borrowed all the equity that they have. Many of them, in a retirement status, borrowed against the farm, borrowed against the land, borrowed against their equipment or cattle or whatever, they have no more liquidity left.

No financing for another year was exactly why the man shot himself yesterday. These bankers, the same lending institutions did not have the heart to go tell these people that they could not loan them their production expenses.

As for the veto last night of the President, the banking and other lending institutions now have to tell the farmers what they did not want to tell them. There are untold thousands out there that are not suspecting that their banker would not go with them again because he's been friendly. The banker was friendly because he thought just possibly that this had to go through. This was the mandate of the people and our leadership ignored it, the same thing that President Reagan cheered across the world, about a mandate from the people when he was elected in November.

I beg you, leadership, and from the first time I came to Washington, DC, in 1977, I walked through the halls and I was scared then as I am today sitting here in front of you. But I walked through the halls and I came out of there. I went to the AAM national office and they said how many Republicans did you see today, how many Democrats. You know, I did not know. I was not even thinking about that. I was thinking about these people who are our leaders, these people in a leadership position. I was not seeing at that time the continued squabble or fight that seems to be existing so very strongly.

There should be something, gentlemen, it seems to me—no matter where we come from, we come to represent the citizenry of this Nation, represent the betterment of it, but we spend so much time squabbling between parties. We are all fellow humans, we are all representing the masses.

If there was one thing I could do today, I would like to wave a little magic wand, and say that after being elected to leadership positions, whether it be State, county or national, we could wave that wand, and all party differences would go away. We need that.

The CHAIRMAN. Senator Cochran.

Senator COCHRAN. Mr. Chairman, I just want to express my appreciation to the witnesses for being here. Tom Willis testified at a field hearing that I chaired in Memphis, TN. It is always good to see you and we appreciate your making the recommendations that you are making to the committee. You can count on the fact that they will be carefully reviewed and fully considered, and we appreciate your contribution to the hearing.

Mr. WILLIS. Thank you, Mr. Cochran.

The CHAIRMAN. Senator McConnell.

Senator MCCONNELL. No questions.

The CHAIRMAN. Thank you very much, gentlemen. It was very impressive testimony.

Mr. JONES. I would like to add one thing. We do have some figures here from Iowa State University on parity. It shows there that parity does not cost one dime. I would like to leave these as evidence and also——

The CHAIRMAN. Without objection, they will be made part of the record.[1]

Mr. JONES. Thank you, sir.

The CHAIRMAN. Thank you very much.

Now, Bob Frederick, who is legislative director of the National Grange. Mr. Frederick, you are a very patient and forbearing man. That is what you get for being on the tail end of the list of witnesses.

STATEMENT OF ROBERT M. FREDERICK, LEGISLATIVE DIRECTOR, THE NATIONAL GRANGE

Mr. FREDERICK. Well, I am glad that my job is not to summarize the testimony that has been given this morning, but I think I could do it because I think we agree as an organization to much of what has been said.[2]

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[1] See p. 377.

[2] See p. 377 for the prepared statement of Mr. Frederick.

I am Robert Frederick, legislative director of the National Grange, with headquarters at 1616 H Street NW., in Washington, DC. We are a general farm organization, representing approximately 400,000 members in 41 States. Since its beginning in 1867, the Grange has been deeply involved in agriculture policy and its impact on the social economic conditions in rural America.

I apologize that our National Master Andersen from Nebraska cannot be here, Senator Zorinsky. He is at the National Farmers Union meeting in Phoenix and will not get in until tonight, so I am kind of maybe on thin ice because he has not even seen the testimony I have prepared. I hope I have stayed in line with Grange policy.

We do want to commend the chairman for setting up what I feel is a set of ambitious hearings, and we appreciate the thematic or issue hearings that have been announced for the month of March, where I think you will address some of the issues that we think are very important in considerating agriculture programs.

Over the years, we have addressed farm policy in terms of the farm program. Since I have been here 17 years, I think this is maybe the fifth or sixth general farm program that I have participated in, but we have had one almost every year in those 17 years, and we have moved from crisis to crisis in commodities. The Grange, along with other farm organizations, has followed that trend of going from crisis to crisis, but yet I do not believe we have addressed what we feel has to be addressed before we can come up with workable farm programs and that is a national food and agriculture policy for the United States which I do not think we have addressed since the early thirties.

The first AA Act and the legislation that followed was I think policy oriented. It was done with a specific purpose in mind, a national policy. Since that time I do not think we have addressed that broad issue of national food and agriculture policy, and we confuse the issue by using the words "farm programs" as national policy and, gentlemen, that is not what it is. Farm programs are only a part and should be directed toward obtaining a food and agriculture policy.

In our judgment, if we define the objective we wish to achieve through our food and agriculture policy, the problems confronting agriculture economy can then be addressed and more easily solved. We must answer the question, what are the objectives of our food and agriculture policy.

I can postulate a wide range of policy objectives, but the decision as to what objectives in fact, are reserved to Congress and to the administration. For instance, is our objective to preserve and expand the U.S. share of the world markets for agricultural products, or is our objective to expand the value of U.S. farm exports, or is our objective to improve the currently disastrous state of real net farm income, or is our objective to reduce the U.S. Treasury exposure on farm program costs, or is our objective to remedy the record $123 billion U.S. balance of payments deficit experienced in 1984, or is our objective to continue to supply an abundance of low-cost food that only required consumers to spend 15.9 percent—which includes that spent away from home—of their disposable income in 1984 for food, or is our objective to stabilize a badly deteriorated and still deteriorating economic situation throughout nonmetropolitan America, or is it our objective to adopt a posture that will allow the debtor nations such as Brazil, Mexico and Argentina to repay their loans to U.S. banks?

The list could go on and on, but every time I pose this question—and I have posed it at every symposium and conference in the last 2 years on the 1985 farm bill—I hear answers like "yes" and "all of the above."

The problem with such responses is that the eight objectives listed are not mutually exclusive nor are they entirely compatible. Therefore, someone at some time must decide which of these or other objectives is most crucial. Up until today—and Senator Zorinsky referred to it, as have some other Senators, have mentioned a long-term food and agriculture policy and have outlined some objectives.

But I have seen no real evidence of the issue of objectives and priorities among objective have been or are being addressed. I think the hearings that you have outlined, Mr. Chairman, will give this committee and the nation an opportunity to address the objectives of the food and agriculture policy.

I did not hear all of the report this morning, but the latest Harris Poll taken shows that there is tremendous support throughout the United States in urban areas for agriculture and agriculture programs and support for American agriculture, because they see what is happening to this total segment of U.S. society in rural America.

The act that was sent up by the administration is driven by one objective, and that objective is impact on the budget, with a total disregard to how it affects farm income.

There are two other objectives that I listed that are in direct conflict in the AAA of 1985: is our concern with export sales directed toward protecting and enlarging the U.S. share of the export market, or, two, is it concerned with increasing the value of farm export sales in order to enhance farm income and reduce the record 1984 trade deficit of $123 billion? These are two very different and, in today's environment, potentially incompatible objectives.

If our concern is directed towards market share with sales prices being of only secondary importance, we must be prepared to face the reality that areas such as Argentina have no choice but to dramatically expand agricultural export sales in order to meet payment schedules on their overseas debt.

I do not intend to complicate the task and the tremendous problem ahead of this committee, but I think if we do address the objectives and what we expect as citizens of our agricultural industry, then adopting and drafting farm programs to meet those objectives will fall in line quite quickly.

Just a few other comments and I will ask that my entire statement be inserted in the record. We do have policy positions that were adopted at our last annual meeting in November addressing the issues of conservation and Farmers Home, research, a food and agriculture policy that our delegates adopted which calls for a targeting of program benefits, because we think targeting is long overdue, and some of the measures that have been introduced, including some portions of the administration's proposal, do target.

We first suggested targeting as early as 1978 when we called for a variable deficiency payment. That was not very popular with the USDA at that time, and still targeting is not very popular, but I think when we are faced with limited bucks to put in farm programs, that we have to be awfully careful and selective where those benefits go, and I for one am not interested in helping the John Curry's of the world, and I do not think the membership of the National Grange is interested in supporting farmers who overleverage to take advantage for only one reason and that was greed.

We feel that any farm program that comes forth should have targeting and targeting those benefits towards that class of farmer, that 850,000 that we are going to lose, that fall into the gross sales categories of $40,000 to $200,000 gross sales.

I agree certainly with the chairman and other Senators who made the statement that the real problems facing American agriculture will not and cannot be addressed in the farm bill, and those are the macroeconomic factors in the world, the high dollar, high interest rates that have done more damage to U.S. exports. I think the Secretary of Agriculture has said that of the $9 billion drop in exports in the last 2 years, that $5 to $6 billion of that is directly related to the high value of the dollar. So certainly we have to address the deficit, we have to address other fiscal and economic and monetary policy that brings about a balanced budget, a soft landing of the dollar, a downward slide, so that we can be competitive again in world markets.

I get a little bit confused and somewhat upset when I attend sessions and have the Department of Agriculture come forth and the only thing that they hold up as a reason that we are not competitive in world markets is the U.S. loan. They use a cause and effect mentality that this happened, the loan rate was here, therefore the reason this happened was because the U.S. loan rate was where it was at, never looking at other factors at loose in the world that cause some of those changes in world market shares other than what the level of loan rate was. I think it is an insult to the intelligence of the economists we have at USDA that uses that type of cause relationship argument.

There are many factors in foreign countries and I think we have to try and study and understand what drives agricultural production in foreign countries. It is not necessarily the level of U.S. loans, it is not necessarily the amount of production we curtail. They have reasons of their own that are driving their agricultural production and they are sometimes not related to anything that we do in our farm programs but are internal factors that causes them to make the decisions that they make.

We as a nation have never known starvation. Other world countries have and they are not going to curtail their selfsufficiency or a certain percentage of self-sufficiency so U.S. farmers can get some of that world market. We have to take a look at what drives agriculture in our competitive countries.

I think the biggest complaint we have of the AAA of 1985 is that there is very little emphasis on exports. I am glad to see, Mr. Chairman, that your bill—I have not read it, but I saw some references to what is going to be in it, what it contains—we certainly compliment you and other Senators who are stressing the export side, because if we are going to ask the American farmer to give up security on the income side because of a reduction in loans, doing away with target protection, we have to do something to assure them that there is market assistance and market help and we cannot sell them a market oriented market if the market is not there to orient toward. So we certainly need a very strong export position in the forthcoming farm bill.

I think our own Government has to take out impediments to agriculture exports. Cargo preference has been mentioned as one. We certainly think that agriculture commercial credit programs should not—we think cargo preference should not be extended to them and we would certainly support legislation, in fact we are meeting now with the coalition of farm groups, with 30 organizations that are seeking legislative relief in exempting all of agriculture from cargo preference. We would support, if it is necessary to maintain a strong maritime U.S. flag, other measures to bring that about and not saddle it on the back of the American farmers.

The 5-percent origination fee that is in the budget sent up by this administration is a curtailment against U.S. agriculture exports, rather than an assistance. In effect, it is an export tax.

Other actions of our Government have interfered with agriculture exports, and as long as there are public benefits derived from public policy that penalizes U.S. agriculture, then we think the public should share in that cost to U.S. agriculture. We do not know really how much influence the State Department and the National Security Council has over who we sell to and how much we sell. They certainly are not to the benefit of a market oriented agriculture, and you could build scenarios.

Over 1 year ago, the rhetoric between the United States and the EEC was very heavy. We were shouting back and forth in loud terms and we had a delegation headed by George Schultz and the rhetoric subsided, the shouting ceased, and maybe it was coincidence but that was the same time we were trying to get missiles placed in Western Europe. I do not know what caused that decision to be changed, what caused the rhetoric to be lowered, but I speculate.

We worked long and hard to open the markets to Japan for beef export, but there came a time when the National Security Council, so I am told, said that is enough. By coincidence, that was at the same time we were trying to get the Japanese Government to increase their defense budget. So actions of our own Government impede agricultural exports and they have to be looked at from a very critical standpoint.

I appreciate this opportunity, Mr. Chairman. We especially look forward to the theme hearings and the commodity hearings that follow and, as in the past, the Grange will be submitting either oral testimony or statements in connection with those hearings.

Thank you, sir.

The **Chairman**. Thank you very much. You are a very eloquent man and I assume that you would want us to make a part of the record the National Grange policy for the 1985 farm bill.

Mr. **Frederick**. Yes; there are two attachments and I appreciate them being included in the record with my statement.[1]

The **Chairman**. Without objection, that will be done. Thank you, sir, for your testimony and for your patience; it is exceeded only by the patience of Charles L. Frazier, who is director of the Washington office, National Farmers Organization. We welcome you and I hope you are not tired of sitting, but I am.

Mr. **Frazier**. We all are, sir.

The **Chairman**. I know. We are delighted to have you here.

STATEMENT OF CHARLES L. FRAZIER, DIRECTOR, WASHINGTON OFFICE, NATIONAL FARMERS ORGANIZATION

Mr. **Frazier**. Good morning, and thank you for the opportunity to appear before you this morning, Mr. Chairman.

The **Chairman**. It is our pleasure to have you.

Mr. **Frazier**. It is indeed a very serious time in American agriculture, as we all know. I will not take your limited time to repeat many of the statements and statistics that have been offered earlier today, but I am happy to be associated with the statements of the last three witnesses who have addressed you here. They have done very well and they speak for many of our farmers.

My national president, Mr. Woodland, also attended the FU convention in the West and I am sorry he could not be here to work with you today, but he sends his regards and his serious best wishes for our work on this farm bill for 1985.

Since the statement will be placed in the record,[2] I would like to touch on just two or three highlights that I believe are important.

The administration has proposed a period of sliding scale price supports and declining limitations that would lead us to a so-called free market in farm products in 5 years. I must say, Mr. Chairman, that this is reminiscent of some of the recommendations forthcoming before the Congress in the 1950's; when some of those policies were tried then they led to the largest accumulation of surplus stocks in the hands of the Commodity Credit Corporation that we have ever experienced in 50 years of farm programs. So I would urge the committee to examine closely those recommendations coming from the good Secretary Block before you buy the pitch.

Considering the rate at which we are losing the efficient midrange producers throughout the rural areas of the United States, we contend that the Government is responsible for today's low prices, and I say that without apology, if you please.

We think we have followed the policies and the leadership set forth by this Government over the last 10, 15, or 20 years, as expressed in farm bills, and quite frankly, policies have been troublesome in our economy. Time after time we have been rejected, or our advice at least has been laid aside, after we appear before this committee and your counterpart in the House doing our best to warn you that those policies were decimating the midrange farmers who constitute the backbone of agriculture in this country. The record today adequately shows that had this Congress been willing to listen to the real producer spokesmen over the last 5, 10, 15 years, and held these prices up with production controls if necessary, just as you have in the tobacco program, we would not have farmers going to their graves out there today.

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[1] See p. 382.

[2] See p. 386 for the prepared statement of Mr. Frazier.

I implore you to look for a new approach in this farm bill as compared to the things we have been forced to live with for the last few years.

Along those lines, I would mention one thing that I believe is significant. I know that you are very, very busy men and I am not sure that you have time to notice it or have a report on it.

In Ames, IA, on the 27th of February, 10 organizations invited producers to come in. We had in addition to farmers, representatives of the churches, the academic world, businessmen, and bankers. There were 15,000 people who came in there at their own expense, and almost uniformly the speakers were well received when they pointed out that the one thing we need in agriculture today is a better price. There is no other substitute for price, considering the dilemma in which we find ourselves.

Now, if that is acceptable for purposes of discussion, we are offering you a farm program recommendation based on what we learned from our own members and our conversations with those in other organizations. If you will pardon a personal reference it also is based somewhat on my own experience working with farm programs over the last 40 years.

Briefly stated, we can agree with the administration on only one aspect that I know of—we think it should be a long-term bill, 5 years or longer. When you get to the guts of the bill that really count, we are willing to give up target prices completely and stop writing those little green checks if you will give us a loan rate equal to 75 percent of parity. We believe a well-administered program could operate on that basis at less money than you are spending on the farm programs today.

Third, we accept the recommendation expressed so very well by the Co-op Council a few moments ago, that the loan payback at market price would spread the burden of supporting export expansion. This is preferable rather than making the farmers bear the cost of the endeavor, which is the case today.

We believe that feature seriously should be adopted in this bill. It is too much to ask the producers to continue going broke trying to produce and sell in a world market that we know is controlled by the big trading corporations and governments throughout the world. It really is not a competitive market in which we can use our efficiency simply to enlarge our share in the market.

We would give up as a matter of good judgment, the so-called farmer-owned reserve simply because it has been operated with so many changes in guidelines, that it is a real maze for farmers to understand. They never know when grain may go into the reserve, when they may take it out, at what trigger levels, or how it is going to operate.

There is an old-fashioned concept that is clearly authorized by the Commodity Credit Corporation Act; the Secretary has authority any year, any time to extend the loan on a crop if maturing that loan would bring too much of the commodity into the Government's hands or otherwise defeat the purposes of the program. The privilege of extending the loan, or running what we used to call in the Middle West a reseal program, is quite acceptable; it is quite sound; farmers can understand it and they know how it works.

We would continue, of course, the authority for the diversion of acreage when it is necessary for the Secretary to bring production within reasonable line with what the market will take and require. We would deny price supports on fragile land. We want a sodbuster provision. We would exclude from program eligibility the production on land owned by institutions, Government agencies, and foreign entities. We would also exclude from eligibility the production of absentee partnerships, syndicates, and large corporations when their principal source of income is other than farming. We are tired of being blasted in the media about the large payments made under the program, whether it be PIK or otherwise, when that money or those commodities are going to little syndicates formed up in Chicago or New York simply to take advantage of the Tax Code.

We think you people in the Senate surely understand this well enough after all these years. We hope you will have the nerve to deal with it. Mr. Chairman, quite frankly, we have got to quit shoving the farmers back under the counter, so to speak, while some of those big entities come in and pick off the fruits of the farm program.

I thank you for your time, sir.

The **Chairman**. Thank you, sir.

Senator Zorinsky, when we first started here this morning, I said "My Lord, are we going to agree on anything," but as the morning has proceeded I have seen develop a consensus on what I consider to be some of the major points of the farm bill that we are to draft. For example, it has been unanimous that we have got to do something about opening up the export markets to our farmers on a fair and square basis.

Now, everybody is in favor of free trade. We talk about it and bid our allegiance to it, but I say to you, sir, if it is not fair, it is not free, and this is what we have got to understand in writing this farm bill.

But I think I am encouraged by the testimony of you and the others and you may think it is an idle effort to come here and testify, but I guarantee you that it is not because I have profited from hearing you and from the other witnesses. And out of all of this, as we proceed with the hearings, I am hopeful that a consensus can be reached. We will not agree on everything, but one thing we do agree on is there is no one in the U.S. Senate that I know about who is against the farmer and there is no one in this Government that has proposed to my knowledge to jerk the rug out.

Now, a lot of reports are interpreted as they are fed out to the people of America, but I find a total unanimity and wanting to be helpful and to solve the problem, and if we can keep our voices down and our hopes high I think we are going to do it.

I again thank you, sir, for your patience in being the last witness. Somebody has got to be the last one. I thank the audience for being here and we will now stand in recess until 2 o'clock, at which time the Secretary of Agriculture will appear before us.

Mr. **Frazier**. Needless to say, Mr. Chairman, we will be happy to work with you throughout the whole process.

The **Chairman**. We want you to do that.

Mr. **Frazier**. Thank you, sir.

The **Chairman**. Thank you very much.

We stand in recess.

[Whereupon, at 1 p.m., the committee recessed, to reconvene at 2 p.m. the same day.]

[The committee reconvened at 2:13 p.m., Hon. Jesse Helms, chairman of the committee presiding.]

The **Chairman**. The committee will come to order.

Mr. Secretary, we have a vote on on the Senate floor and that has delayed just momentarily the arrival of other Senators. I suggest we just stand at ease for a couple of minutes.

Mr. Secretary, we appreciate your coming with your associates. We look forward to your testimony. Senators will come in shortly, but in the meantime I do not think we ought to impinge upon your time, and let me suggest that you present your associates just for the record and then proceed with your statement.

You have Mr. Mizell on your left, which is an unusual place for him to be. [Laughter.]

Ms. Lawrence, who has relatives in Greensboro, NC; Randy Russell, Dan Amstutz, and you turned the picture to the wall on the empty chair down there.

Mr. **Russell**. That is Frank Naylor; he will be here.

The **Chairman**. I see.

Secretary **Block**. Mr. Naylor is not here yet.

The **Chairman**. The late Frank Naylor will be here shortly. [Laughter.]

Again, Mr. Secretary, we are delighted to have you and we would be delighted to have any statement you would make.

STATEMENT OF HON. JOHN R. BLOCK, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY FRANK NAYLOR AND RANDY RUSSELL

Secretary **Block**. Thank you very much, Mr. Chairman. I am pleased to have a chance to talk with you and the rest of the Senate Agriculture Committee on such a very serious and important and critical subject as agricultural policy, inasmuch as this is the year that we are obligated to write new agricultural legislation and I know how important that is to this agricultural industry.[1]

In the past year, I have spent a great amount of time going across the country listening to agricultural leaders, farm people, agribusiness people, and anyone else that wanted to meet and talk to our group as we went across the land to tell us what they thought farm policy and agricultural policy should be like for this country.

I will say this to the committee: It was clear to me that there was and is a widespread disenchantment with the way current farm programs are serving agriculture. There was a strong desire to have some change.

I also would say very candidly that the majority that we talked to felt that a move toward more market-oriented agriculture with less Government was the best approach to take. However, there were those that felt that the right approach would be to have more Government involvement as we look to the future.

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[1] See p. 401 for the prepared statement of Secretary Block.

After 50 years of farm programs—and these farm programs have been a lot of short-term fixes, oftentimes without regard to equity or consistency—we have seen programs spring up providing quotas and allotments for some crops, such as peanuts, target prices and acreage reduction programs for others, such as wheat, feedgrains, cotton and rice, direct purchases for programs such as dairy, payments for wool and mohair, and a whole host of different ways of approaching the farm program situation for different crops across the land.

We have a unique and, I think, historic opportunity in this year of 1985 to write new legislation that makes sense that will put agriculture on a path towards prosperity as we look towards the year 2000.

We have fashioned a series of objectives that we feel are absolutely essential as we go forward to write this policy. We have a chart here that will lay out those objectives. The first one is, Mr. Chairman, we believe that the policy should be long-term agricultural policy. We believe farmers are tired of hearing about changes in policy not just once a year, but oftentimes twice a year. They want to be able to plan for the long-range future.

The Agricultural Adjustment Act that we are talking about provides for policy that will be well into the future, through the end of the century. It will be flexible and flexible in design so that it can adjust to changing international market circumstances, inasmuch as we live in a global agriculture today.

The second point is that we are promoting and believe in a market-oriented concept in agricultural policy. Farmers want income from the marketplace. Farmers do not want their income from the Government. Basically, farmers want to get their income out of the market; they do not want to be dependent on Government and they do not want to become wards of the State.

And I will submit, in the last 2 or 3 or 4 years, whether we like it or not, and I guess none of us liked it, the fact is farmers have tended to become more dependent on Government and in some programs we are more hooked than we ever were, and that is a very, very serious danger sign and we are going to have to heed those warnings.

The old programs that we have lived with have been programs of rigid price supports. They have thrust upon agriculture some problems that we perhaps never appreciated or understood in the seventies because we had rising prices all the time and inflation, which kept agriculture moving on an ever-spiraling path upward.

As the eighties came, we found surplus production; we found excessive stocks. We resorted to a payment-in-kind program to reduce those stocks. We were able to reduce the stocks. We could have done it a different way. We could have bought that production out or that land out of production with money. We bought it out with grain. It did not make much difference how we did it, but we did it, and that was one of our problems were those excessive stocks.

We have had a serious loss of markets in the last few years due to a number of problems that we face; rigid supports, for one, a strong dollar for another. We have found that our farm programs have been exceedingly expensive for us, expensive to the point that it is has been difficult on occasion to justify the costs, no matter how difficult it has been in the farm country.

The new Agricultural Adjustment Act of 1985 will provide for a pricing system where the price will be a product of supply and demand, and I do indeed believe that this is essential if we are going to see a growth-oriented agricultural industry in this country in the years to come.

The third point is enhanced competitiveness. We are looking at market-clearing loan rates. We propose to phase out acreage reduction. We have had acreage controls, and I have talked to the Ministers of Agriculture from Canada and Australia and other countries in Europe, and talked to them about holding back a little bit because the United States is holding back.

We are trying; it has not done a bit of good. They have gone right ahead and increased production. What they are really telling us is that, listen, you have got to get in there and fight for it; you have to compete for it or you are not going to get it, and we are not going to give you anything just by talking to us, and that is just the way it is.

We need to reaffirm our commitment against embargoes. The Agricultural Adjustment Act has a very strong trade title in it, providing for contract sanctity, providing for a responsibility on the part of the Government that this administration come to Congress in July 1986 and propose certain steps be taken against our trading competitors if, by that time, they have not mended their ways in the cases where they have been victimizing the American farmer in international trade. And I think that is an important part of this Agricultural Adjustment Act.

We will be working for access to markets. We are looking towards expansion of markets. To demonstrate just how important markets are to us and how we have lost out in the last few years, let us take a look at this next chart, Mr. Chairman.

You can see from this chart that the world wheat market has increased in this period of time between 1981 and 1982 and 1984 and 1985, but the U.S. share has declined from 48 percent of the world wheat market to 36 percent. The world wheat market has gone up to over 110 million tons, and our share has declined.

We only got no percentage of the growth; we also lost part of the percentage of what we had before. So we have lost ground in that world wheat market. Furthermore, I guess you can point to the strong dollar as a reason why we have lost it, but if we had had some flexibility in pricing these commodities, we might have moved more and we probably could have held on to more of this market during this timeframe.

The next point I would make is that we are looking at in our Agricultural Adjustment Act an orderly transition. We are not talking about pulling the rug out. We are talking about 5 years as a transition period from rigid to flexible supports.

We are talking about providing an economic cushion with a phase-down of target prices over this timeframe, and easing into a different kind of market-directed agriculture.

The fifth point: We are looking at equity and consistency. Farm programs today, under the current law, do not benefit all commodities. Indeed, only one-third of our farm commodities fall under farm law and receive direct Government support payments. That is saying that two-thirds of our agricultural production is outside of the area of direct payments, and I would submit that the two-thirds outside is probably doing better than the one-third that is inside. Maybe that is sending a message to us and we ought to think a little bit about it right here and now, today.

Thirteen percent of the producers in this country get 45 percent of the payments. Well, you know, you can justify it. I have, by talking about how they have more land so they deserve more payments. But the whole truth is this creates another inequity that has to be dealt with, and we must take a serious and hard look at it as we prepare to write new agricultural legislation.

The Agricultural Adjustment Act of 1985 will provide for equitable pricing and income supports. We do this over a period of time to provide a more level playing field than we have had before. Commodity programs will be made consistent with other programs over this period of time.

Budget restraint—that is the sixth point. That might be, to some, the most important point. When you look at budget restraint, we have to appreciate that we have recorded some record costs of some of our farm programs over the past few years, and let us just look at what has occurred.

Now, we did not want this to occur, necessarily. We did not ask for it. When the bills were written, we did not even anticipate it, and I submit to you that it was not anticipated in any of these bills. But it is like stair steps; 1974 through 1978, farm programs cost $12.7 billion; 1978 through 1982, they went up to more than $27 billion; 1982 to 1986, they went on up to more than $63 billion.

And, gentlemen, we cannot afford to write another farm program that puts another step in those stairs on the incline that we see there because if we did, we would step on up to $120 billion over the next 4 years, and I know we cannot do that and I know that none of us really want to do that. We need to find a way to provide for some finite cost control of our farm programs.

The Agricultural Adjustment Act of 1985 will cost less. It will bring down the costs of those farm programs, and if you look here, the black cross-hatched part of this chart shows the cost of farm programs if we stay with current services, if we do not change the law at all, if we just continued it. It continues to cost about $15 billion a year.

If we have the courage to go forward with a more market-oriented policy where the farmer gets his income out of the marketplace, the costs will decline so that we are spending about $5 billion a year after we get out into the years of 1989, 1990, and 1991.

I submit that that is the right approach to take. It is consistent with the fiscal responsibility that is our responsibility. It is consistent with getting the deficit under control, which most farmers will concede is the best farm program that we can write, anyway, and has agriculture doing its part in addressing this question.

But even beyond that, the truth is sound, good agricultural policy is consistent with reducing government's role in agriculture.

I cannot believe that farmers want to continue to receive this kind of income from the Government. I cannot believe that farmers want to become more and more hooked on government support.

I believe that farmers want to get away from Government and that we need to find a way to do it, and do it in a way that is gentle and provides for a transition period. And I think that our program does provide that opportunity.

Let us look, Mr. Chairman, at the options that we are faced with here today because I believe there are only three options, really. There are varying degrees of these options, but there are really only three options that we can choose from.

We can extend the current law, we can go forward with mandatory controls, or we can move toward the more market-oriented policies that this administration recommends. Let us examine these in a little bit more detail a little more carefully.

The first option, the option of extension of current law: I submit that it has been more costly than we would like to see; that it is open-ended and it can get away from us because it has gotten away from us before. It has been ineffective in its program application.

We really are not very successful in cutting acreage because there is always some loophole and someone wants to get around it some way. We have found other countries come in and take our markets away from us, and I really do not think that a continuation of current policy is a viable option.

I might also add, as much trouble as we have in rural America today and as painful as it is, we got here under current law. Current law has not been our salvation to date; current law would not be our salvation if we carried it forward into the future.

Option two: mandatory programs. Mandatory programs are promoted by some and, as I have said, we heard some support for that as we went around on hearing schedules last year. Mandatory programs would be very restrictive. We would be looking at quotas; we would be looking at allotments.

Farmers would be required to plant a certain number of acres or take out so many acres. They would not be paid to do it and they would not have any option. They would not have the freedom of deciding whether they would do it or not either. "Big brother," the Federal Government, would make those decisions.

We would have a higher cost structure in agriculture, no question about that, but we would be able to raise the price of commodities by mandatory controls of production. We would move on a path of misallocation of resources, and what I mean by that is we would be taking American agriculture and looking at it across the board, taking out 40 percent of the wheat land in Kansas, 40 percent in Illinois, 40 percent in Alabama.

We would do it across the board. We would not really give the farmers the option of deciding over a period of time to shift to new crops, to move, because these quotas would become very valuable because they would guarantee that that wheat land would garner a certain price. When you get that kind of situation built into the system, farmers are not going to move away from it; they are going to feel obligated to stay with it.

American agriculture would become increasingly less efficient because our resources would be misallocated, and we would lose markets because we would be pricing ourselves out of the world market. It is as simple as that.

Now, as we compare the mandatory program with our market-oriented program, let me make this one point clear, and everyone needs to understand it. The examples that we have used have assumed that we would spend the same amount of money on the market-oriented and the mandatory program.

So we are not saying we will not spend any money on mandatory programs. We are saying that we are going to spend the same amount, and we use as a standard our Agricultural Adjustment Act of 1985 and then we, beside it, build this other plan, which is a program of mandatory controls designed to spend the same amount of money.

Then we have to look and see is the farmer going to be better under the Agricultural Adjustment Act of 1985 or a different program of mandatory controls. Let us talk a little bit about our program of market orientation.

We are talking about flexible market-clearing prices. We are talking about a safety net, yes—we are not going to abandon agriculture—a safety net at a level that will provide support but will not set the price.

We are talking about phasing out supply controls; they have not worked, anyway. Other countries have just come in and taken our markets away from us. We are talking about ultimately, under this plan, efficient use of resources. The farmers decide which acre to plant to which crop in which State in which county, not the Government.

The Government—we do not know anything about it. We will have this place so messed up, this country so screwed up in agriculture, if we get into production control in a heavy-handed way, that we never will be able to compete in the world market.

And instead of American agriculture being the envy of the world, it will be the laughingstock of the world because we will not be part of the game and part of the picture in the long run if we move into this kind of a system.

We will be able to expand our export markets if we become competitive and move to a market-oriented approach, and we will indeed be able to sell about a billion bushels more corn, about a billion bushels more wheat, in international trade if we move to a market-oriented approach than we would if we moved to a mandatory control approach.

Let us look at this mandatory versus the market-oriented approach here. We are looking at planted acres here, and this chart shows what we would have in planted acres if we went forward with a mandatory approach versus if we went ahead and had the more market-oriented approach.

There would be about 50 million fewer acres the first year. This would have a major impact on the agricultural industry. I am not just talking farmers; I am talking the whole industry.

We always talk about American agriculture; 22 million people owe their jobs to agriculture. Let me tell you something. If we go to a mandatory control program that cuts back our acreage and cuts back our production, there will not be 22 million people getting their jobs out of agriculture then.

We will find suppliers and processors and transporters and everyone else that services agriculture in a declining state and a dwindling opportunity to serve this industry. The Agricultural Adjustment Act will provide the acreage adjustments over a period of time, but they will adjust as the market calls for that adjustment, and we would predict a slight increase over a period of time of planted acres in agriculture.

Now, let us look at the export side of it. What happens in the export area if we move towards mandatory versus the market-oriented approach?

We are talking about the crops of corn, wheat, cotton, and rice in these examples—corn, wheat, cotton, and rice. It is not everything, but these are basic crops comprising a big acreage in this country.

Under the mandatory program, the U.S. exports decline in a growing world market. You see how those exports went down, and they go down dramatically right away; they are going to stay down quite a bit.

They go down for two reasons. They go down for the obvious reason that we price ourselves out of the world market to a large extent. They go down for another reason. As you raise the price supports to an artificial level, we are going to have to put up trade barriers to imports because artificially high prices encourage imports into this country.

There will be a lot of Argentinas wanting to sell grain in here then, so we will have to put up artificial trade barriers to keep that grain out. When we do that, we are going to have tension and antagonism with countries around the world. They are going to be less apt to buy our products and the free market approach where American agriculture is competing in the international trade business is going to be out the window because everyone is going to throw it right back in our face, and we just have to forget about it, likely, at that period of time.

Under the Agricultural Adjustment Act of freer trade and open markets, our exports will gain a larger share of a growing world market. And if you look at this chart, we are looking at the fact that we will be selling 50 million metric tons more grain under our program. We will sell 10 million metric tons under the mandatory program over this period of time. Also, with our program, the trade barriers will be reduced.

Let us take a farm, let us take a wheat farm. We could do it with a corn farm; we are going to do it with a wheat farm. We have a wheat farm here, a 500-acre farm, and we are looking at 1986. That is just next year, so we will use the facts on there that fit with 1986.

With a mandatory program, we are looking at, in order to achieve a price of the crop of $3.90—it sounds good if you are a wheat grower; I like the sound of it, too—in order to reach $3.90, you have to take 45 percent of your land out of production. We will set a target price in there at $4.38 and a loan rate at $3.30; gross returns, $50,000 for this 500-acre wheat farm.

The returns above variable costs will be $35,000, and the variable costs we are figuring the same in either one of these programs.

Let us take this same farm in 1986; let us go with the program we are offering in the Agricultural Adjustment Act of 1985. Take out the 15 percent that we are recommending in land; provide a target price of $3.41, which everyone will say, well, that is too low, but let us do it anyway, let us put it there.

Let us put the loan rate at $2.56 so we can compete in the world market. Let us go in and challenge these other countries. Let us move this grain abroad and put it into the export channels. Put a market price there of $2.60. It does not sound like a very good market price, but the gross returns are more, $56,000, and the returns above variable costs are also more, $37,000. [Laughter.]

And we have more of the agricultural plant in business than we would have had had we done it otherwise.

The **CHAIRMAN**. The Chair respectfully requests our visitors to refrain from any display of opinion. The Secretary has come to give his side of it. We sat for 4 hours this morning hearing the other side of it.

And the only way we can achieve anything is to try to meet a resolution of the varying opinions on a difficult problem. So I hope there will be no more demonstration.

You may proceed, Mr. Secretary.

Secretary **BLOCK**. Well, thank you very much, Mr. Chairman.

Let us go on to 1991 because 1986 is 1 year and we really need to be looking to the future of agriculture. Let us see what happens by the time we get out to 1991. What really happens by the time we get out there—we are still looking at a 45-percent acreage reduction in order to keep that wheat price up there in a range that is going to satisfy the industry.

The market price would be $4.35 by that time. Gross returns would be up to $54,000, and the returns above variable costs would be $37,000. But by the same token, by 1991, we would not have any acreage controls. We would have no acreage reduction. The target price would be $2.26, the same as the loan rate; target price and loan rate, $2.26. It sounds low, but it is down there at market-clearing levels.

The market by then will be well above the loan rate, $3.50—well above the target price. Gross returns will be $71,000, and the returns above variable costs will be $46,000.

Now, these examples, gentlemen, we did not pull out of our hat. Economists worked on them, put them in a model, and did the best they could to come up with the kind of best estimate that we possibly could.

And I think we all are quite aware that your net income starts out as a product of volume times price, not just price. Then you have to subtract from that the costs, and if we will have a lower cost per unit, which you do have when you are farming more acres, you are going to have a better chance of getting a better income out of the whole process.

I have a couple of other charts here that tend to give us an indication, kind of in a very graphic form, of a very quick look at what happens in producer returns over variable costs. This is the same wheat farm, and the producer returns over the variable costs in both programs drop initially, then they go up much faster under the market-oriented approach than the other.

This next chart here gives us returns on variable costs. The first one is the gross producer returns. As you can see, the returns on gross grow very rapidly. We kind of lock ourselves into a straight line on this mandatory program; there is just no way of getting around it.

We will not have a dynamic, growth-oriented industry. It is a straight-line type of industry. We have settled for something that is static. That is what we are going to live with.

Returns above variable costs here—and I think you have to appreciate it is true we are looking at these returns on this black line, which is the market-oriented approach. They drop down lower for the 1987, 1988 range, and then they come right back up after that. And then 1989, 1990, 1991, and from there on we are going to be much better off and American agriculture will be on a path to prosperity. And I submit, Mr. Chairman, we are going to have to look to the long-range future if we are going to see health in this industry.

Very quickly, the consequences and a summation of what we are talking about here today: We are talking about a comparison of a mandatory program versus the Agricultural Adjustment Act of 1985 and the economic consequences.

If we were to go with a mandatory program, the acreage planted would be reduced by 50 to 60 million acres. That is point number one. Accept it; it is a fact. Wheat, corn, rice, and cotton exports would be reduced by 40 to 70 million metric tons.

Fact No. 2: If we go with a mandatory program, the export value would be reduced by $10 billion. Fact No. 3: If we go with a mandatory program, the economic activity in ag-related sectors would be reduced by $5 to $10 billion. These are the other businesses that we are all interested in related to agriculture.

And the final fact: Employment in ag-related sectors would be reduced by 200,000 to 300,000 jobs, all important to us in agriculture.

In conclusion, the path we follow in the 1985 legislation will likely set the course for agriculture policy well into the next century. When President Roosevelt proposed the Agricultural Adjustment Act to Congress in 1933, he said, "I tell you frankly that it is a new and untried path, but an unprecedented condition calls for the trial of new means to rescue agriculture."

Only a year later, in 1934, Secretary of Agriculture Henry Wallace said,

> The present program for readjusting productive acreage to market requirements is admittedly but a temporary method of dealing with an emergency. It could not be relied upon as a permanent means of keeping farm production in line with market requirements.

If we fail to remember the lessons of the past, we are doomed to repeat its failures. We all share a common desire to preserve and promote this Nation's most important and productivity industry.

Winston Churchill once said, "You can always count on the Americans to do the right thing after they have tried everything else." [Laughter.]

Secretary **Block**. We have tried quite a bit. I hope this time around that we can do the right thing. The Agricultural Adjustment Act of 1985 sets agriculture on a course which will ensure a longer term prosperity not only for agriculture, but for the entire economy.

And I thank you, Mr. Chairman, and the rest of the committee for your indulgence and your time. Thank you.

The CHAIRMAN. Thank you, Mr. Secretary. I probably sat here longer this morning and listened perhaps a little more intently to the testimony of a variety of witnesses. I had anticipated when the hearings opened that there would be a great deal of disagreement.

I was surprised, but then not too surprised, when it was all over and the smoke had settled that there were far more areas of agreement among all of the witnesses than there were areas of disagreement.

For example, not one witness suggested that the present policies are working; all said that they are not working. Second, I was very pleased that there is unanimity, including your own good self, about the absolute necessity of correcting the imbalance in world trade.

There was much discussion this morning about the subsidized exports of other countries, and this is something that you and I and others have talked about and worked on for a long time.

I remember the many trips you have made around the world trying to correct that, and in a minute I want you to tell me, if you will, what you would like to have from the Congress in the way of enabling legislation to assist the American farmer in removing the inequities and the unfairness that are so apparent now in the subsidized exports of other countries.

I do not believe I heard anyone say that if we go the mandatory route that we are talking about the necessity of trade barriers, which, according to the best information available to me, would result in a 30-percent reduction across the board in agriculture and all related industries.

Now, we had discussions about parity this morning. I guess parity is what you say it is, but I remember Herman Talmadge, bless his heart, was presiding over this committee when I was a very freshman Senator and they were talking about parity, and he turned to a staff man and he said, "What the devil is parity, anyhow?"

So we have got to understand precisely the definition, and I would for you, sir, to take the testimony of one of the witnesses and give me a memorandum analyzing the parity suggestion because a lot of information is lost in translation. People come up here utterly sincere and say this will work and that will work, and then nobody says how much is it going to cost. Or if you do ask, they say, well, we will increase income so much that it will not matter anyhow.

But we cannot operate unless we have some reasonable estimate on what the cost to the taxpayer will be and what it will do in terms of the budget.

Finally, I am absolutely persuaded that if we wanted to write a great farm bill that we need not have the word "farm" or "farmer" or "agriculture" in it. If we could get those interest rates down, if we could get the budget well on the way toward being balanced, that would be the best thing we could do for the American farmer.

But I do want to reject in your presence, sir, some of the allegations that have been made that you are jerking the rug, or that you are proposing to jerk the rug out from under the American farmers.

I have not heard you say that, nor have I heard OMB or anybody else say that. I have heard only a proposal for a transition. So I want to thank you for coming here today, and I have no questions, except I want to know if you are prepared to tell me now what we can do as a Congress in the way of enabling legislation to help restore a balance in our export trade.

Secretary BLOCK. Well, briefly, Mr. Chairman, on that subject, and I think it is vitally important, we really need to restore that balance. I believe that we can be best helped if this trade section in the 1985 agricultural bill provides for some very strong language to challenge unfair competition; as we have written into ours, ensure that we have contract sanctity in that bill.

I think if we are really going to be in the business to export, we are going to have to have competitive pricing. It would be a lot more fun to have competitive prices with a weaker dollar because it would be easier to be competitive, but we do not have the luxury of living in the kind of world we might like. We have to live in the one that we have. The one we have today is a strong dollar, and that means we are going to have to have prices flexible enough to come down to where we can compete.

I do not think the dollar will stay strong indefinitely, but it is where it is today and we have to live with it.

The CHAIRMAN. It is sort of an anomaly among some people to complain about the dollar being strong, you know.

Secretary BLOCK. That is right.

The CHAIRMAN. But I guess what I am asking you about this trade policy, Mr. Secretary, is are you prepared, are we prepared, and I include my colleagues in this—are we prepared to be hard-nosed about this thing with our trading partners?

Secretary BLOCK. Mr. Chairman, I think we have to be harder nosed than we have ever been. We have been talking a great deal; we have gone ahead with a wheat flour sale or two and blended credit, all of which has helped. But we are going to have to just be harder nosed than we have ever been because we do not have all of our problems solved.

We were successful in making some real progress in beef and citrus in an agreement with the Japanese. There is some movement in the European Community, but it is painfully slow for the American farmer. I believe the only way to get progress is maximum leverage, and maximum leverage can be applied in different ways.

I think it has to be responsible. I do not mean we want to precipitate a trade war. We do not have to, but we do need to use leverage.

The CHAIRMAN. Senator Zorinsky.

Senator ZORINSKY. Thank you, Mr. Chairman.

It is good to see you, Mr. Secretary. I have in front of me a report entitled "The Current Financial Condition of Farmers and Farm Lenders," prepared by the U.S. Department of Agriculture. The report has not been released yet, but it was prepared by your Department.

The subparagraphs under it are "Causes of Financial Stress, Farms with Cash Flow Shortages, Farm Debt and Insolvency, Stress on Rural Banks, and Problems of Other Lenders."

Yesterday when the President vetoed the emergency farm credit legislation, he stated that only 4 percent of all the farmers are in need of help immediately. This report that your Department prepared indicates that some 243,000 farms have debt-to-asset ratios from 40 to 70 percent, and these farms are termed highly leveraged and tend to have serious cash shortfalls.

Also, an additional 143,000 farms have debt-asset ratios above 70 percent, and these are very highly leveraged farms. The report contains statements that an estimated 30,000 farms are insolvent, having debt-asset ratios over 100 percent.

This report goes on to make numerous comments like, it would take an average price increase of up to 32 percent to restore all family-size commercial farms to positive net cash-flows. Price increases of this magnitude seem improbable, given normal weather and current expectations of domestic and foreign demands.

In another section, the report indicates that 73,000 farm operations with debt-asset ratios between 70 and 100 percent and could not survive more than 2 years like the recent past without becoming technically insolvent; and comments that indicate that through June 1984, only 8 of the 42 bank failures involved agricultural banks.

From July 1 to December 21, however, 15 of the 32 bank failures were agricultural banks, which indicates agricultural banks are failing at an increased rate in the last 6 months.

It indicates PCA's absorbed loan losses of $109.5 million for the entire 1970-79 period. Loan losses totaled $463 million during 1980-83, and the FLB's experienced total loan losses of $6.7 million during the 1970-80 period, and this has increased to $12.5 million for the 1981-83 period.

The summary indicates bank failures are currently running at 10 times their average annual rate for the past 3 decades. Institutional lenders, depending on the proportions of their portfolios in farm loans, may not be able to absorb a possible near doubling of the numbers and amounts of troubled farm loans over the next 2 years without severe problems, including further increases in lender failures and increases in the cost of credit to agricultural borrowers.

These are just some of the many statements in this "Current Financial Condition of Farmers and Farm Lenders" document prepared by your Department. Was the President consulted or informed as to the contents of this report prior to his statement that only 4 percent of all the farmers needed immediate help?

Secretary **Block**. Senator, the President has the very latest information and within the past 10 days we have spent an exhaustive period of time talking about these subjects with the President, with other Members of Congress, members of the Cabinet, and Governor representatives when the Governors were in town.

The 4 percent—the President did misspeak there. He meant 4 percent are likely to go out of business; they face insolvency this year. But, of course, he is quite aware, and you can find statements that he has made even in his Saturday radio address which clearly points out that there is a much higher percentage than that, that are facing serious strain and stress financially.

Senator **Zorinsky**. Thank you. Mr. Secretary, do I understand that we have a commitment from the administration and yourself that no qualified farmer will be refused a Farmers Home Administration loan due to a shortage of funds?

Secretary **Block**. We do not intend to turn away the qualified borrowers, and indeed we have been servicing them as fast as resources of personnel—and it is a big drain on us because, as you know, Senator, there is a heavy load of people coming into these offices and we are servicing them as fast as we can.

We will provide additional funding if we have to, if we find it necessary here. We have been moving funding around from one quarter and moving it up to the spring quarter, and we are looking at moving it to different parts of the country.

Senator **Zorinsky**. But there will be no shortage of funds?

Secretary **Block**. There will be no shortage of funds.

Senator **Zorinsky**. Thank you. Thank you, Mr. Chairman.

The **Chairman**. Allow the Chair to suggest that there are nine Senators yet to question the Secretary and his associates. Now, Ed and I stayed within the 7 minutes. Would 7 minutes per Senator be sufficient? That will mean approximately another hour for the Secretary to answer questions.

Senator **Melcher**. Mr. Secretary, would you object to another round if we do not complete in 7 minutes?

The **Chairman**. That would certainly be agreeable to me, and the Secretary says that will be fine.

Again, we have attempted to identify the Senators as they arrived and, Senator Melcher, you would be next, then Senator Heflin, and Senator Leahy, in that order.

Senator **Leahy**. I think I was here earlier. In fact, you and I chatted.

The **Chairman**. Well, Pat was here at first and went to make a telephone call, so I will amend that if that is agreeable, and then it would be Leahy, Melcher, and Heflin, in that order. Then we will proceed from there.

Senator **Melcher**. You go ahead, Pat.

Senator **Leahy**. No; you go ahead.

Senator **Melcher**. All right, I will go ahead.

Mr. Chairman, I am glad we are having these hearings. I looked over the schedule and it is the most comprehensive scheduling of hearings for a farm bill since I came to Congress 16 years ago, and I commend you for that.

I think, out of the 45 days of hearings that will be generated, the facts and the knowledge and the wisdom to draft a good farm bill will occur—one that can have the support of this committee in a bipartisan manner and one that is a great deal different than what the Secretary has described as his proposal.

Now, Mr. Secretary, you mentioned in your testimony, in part, that you want to get to the point where farmers can plant anything they want in any county or area they want to, and make that decision themselves.

Tell me, what happened to tobacco?

Secretary **Block**. The tobacco legislation will be forthcoming from our Department and it will be consistent with the other kinds of recommendations that you find in this omnibus farm bill.

Tobacco, as you know, Senator, is under permanent law. It would not have to be addressed at all this year, whereas these programs that we are talking about here today must be addressed because these programs expire this year. But we are going to address tobacco, too.

Senator **Melcher**. Is tobacco considered to be part of the package from the beginning?

Secretary **Block**. Tobacco could have been, but it was not and it has not been sent up that way.

Senator **Melcher**. Was it being considered as part of the package?

Secretary **Block**. It was talked about along with everything else because in the end we want to work toward consistency and equity, as I have said here and as I have reported in my opening remarks. But it was not necessary that it be part of the total package simply because it is not due to phaseout this year as permanent law.

Senator **Melcher**. Is there any truth to the published reports that the chairman insisted that it not be a part of this, and therefore it had to be dropped? That is what the published reports suggest.

Secretary **Block**. Well, the chairman is going to work for tobacco in whatever way he sees fit, and that is his prerogative. But we will have to wait and see what he does on tobacco; I am not sure what he will do.

Senator **Melcher**. Was there any feeling of dropping tobacco off as a way to tear apart the agricultural coalition of different commodity groups?

Secretary **Block**. We do not intend to see this thing unravel as we go down the road. I think you make a good point there. If we see one commodity unravel out of this thing, the whole thing can fall to pieces, and I am speaking of this whole list.

I am sure that dairy would like to have special exceptions made. I think they all would, and I think we have to take a look at the total picture, Senator.

Senator **Melcher**. If tobacco is out of the package, it might be a sore thumb sticking up. Might not tobacco be really hurt by not being in this package?

Secretary **Block**. Well, it is a double-edged sword. It is a double-edged sword because if you have every commodity in there—maybe most of them wish they were out. If you have some out, then the others wonder how those got out of the box. So we are all going to have to deal with this, Senator.

Senator **Melcher**. Mr. Secretary, you quoted Franklin Delano Roosevelt and Secretary of Agriculture Wallace. I happen to be old enough to remember those days and the AAA Act that they proposed was drastically different than the one you propose, Mr. Secretary.

Are you familiar with the circumstances in 1933 when there was absolutely no price for agricultural products? You could not move them, you could not sell them.

Secretary **Block**. Well, I am familiar to the extent that I have read about the situation there, and my father has told me about it many times.

Senator **Melcher**. I hope we do not get back to that, but I am sure many people share my concern that we might. At any rate, Secretary Wallace was given the authority to require that baby pigs be killed and that cattle numbers be reduced. In order to get the supply down, the most drastic steps ever taken in history anywhere in the world were taken by an edict of Government, but that was to get the supply down so the price could go up.

Now, you are telling us that under market orientation, you are going to get the supply up so the price can go up. It seems a little bit peculiar to be using Secretary of Agriculture Henry Wallace's statements in support of this proposed bill when it is absolutely contradictory to what Wallace thought and Wallace did and the circumstances seemed to demand be done in those days.

Secretary **Block**. Well, I think what we are talking about is that if you go with a mandatory program, which is kind of some of what he did then—he put a heavy hand on agriculture for a reason under those circumstances, Senator, and he had a reason for doing it.

What happened was it was to get some price in there. You said there was not any price. It was to put some price in there by severely cutting supply. If you go the mandatory program route that I have talked about here, we can raise prices that way, too.

We are not talking about anything as severe as what happened in the 1930's, but that would increase price, also, and the price would be higher. Let me tell you, the price is higher under the mandatory controls per unit.

But if we open the markets up and let the markets work, we will be able to export more and the gross will still be better for the American farmer in net income, and the future better under a market system.

Senator **Melcher**. Thank you, Mr. Secretary. My time is up and I will continue questioning you in the next round.

The **Chairman**. Senator Leahy.

Senator **Leahy**. Thank you, Mr. Chairman.

Mr. Secretary, like everybody else in the Senate, I find this to be one of these days where I am supposed to be in three different places. I had to make a choice this afternoon. As a member of the Senate Appropriations Committee, I could be at a hearing to discuss national security issues—in this case, missile systems—or I could attend the Agriculture Committee discussing the 4-year farm bill.

Quite frankly, I felt that this hearing was the place where we were discussing national security issues. The United States is the only major military power in the world that can feed itself. We are the only major military power in the world that does not have to import its food, that can never be starved out by a rival country, that cannot have its foreign policy, its domestic policy or its economic policy shaped by outside forces.

But quite frankly, Mr. Secretary, I worry how long that situation will continue. I worry whether, when my children get out of school and they are adults, they are going to be able to live in a country where such an integral part of the security of that country is protected because of our ability to feed ourselves.

Net cash income for farmers in 1985 is going to decline by as much as $5 billion from the 1984 level. It is the fifth consecutive year that farm income has declined, and it worries me very, very much that what we are going to see is the demise of agriculture as we know it in this country. I am concerned that we are going to see a turn about of one constancy in the history of our Nation a Nation that started as an agrarian Nation and one that has always prided itself on the ability to feed its own people.

I do not mean to be parochial when I talk about Vermont interests in this case because similar observations could be made about many other parts of the country. But I have met with a lot of Vermont dairy farmers; most tell me that we need a long-range dairy program and policy without the uncertainties of year-by-year adjustments by Congress. I think you hear the same thing from wheat farmers and corn farmers and rice farmers, and cotton farmers, and every other farmer.

It is impossible for farmers in my State of Vermont to make long-range plans under short-term and often radically shifting policies. I think the 1985 farm bill should protect family farms from operating under unrealistic circumstances.

In Vermont, the farms are small; they are family operated. And Vermont farmers believe that the administration is against them. I will be holding hearings of the Senate Agriculture Committee in Vermont very soon to talk about that.

Vermont farmers believe the administration is telling them, "get big or get out." If that is so, that means the end of the small farm. It is going to mean the end of the traditional base of our whole social-economic structure in the State of Vermont.

I think we need a dairy program to increase consumption in milk and dairy products. I think that such a program is vital if these farms are to survive. Vermont dairy farmers believe milk is not overproduced; it is undersold. I agree. I think the administration would do well to listen to them and to what they are saying.

Farming is important to America. Vermont dairy farmers are similar to farmers around the country: they are hard working, they are responsible, they are understanding. I think you will find that in farmers everywhere.

Vermont dairy farmers recognize the dangers of a price support program that encourages production solely for government warehouses. These dairy farmers tell me that, if there are going to be sacrifices, they are willing to bear their share of the sacrifices, but let them be fair.

I do not think that the farmers of this country, any more than any other one segment of this country, should be singled out and be told that they are the ones who must bear all the sacrifices for everybody else.

I have not met a single farmer who says he or she will not bear his or her share of lowering deficits, keeping inflation down, and hopefully bringing interest rates down. But farmers want to make sure that they receive equal treatment. They do not want Congress to say "let us cut out the farm programs so we can buy a $7,000 coffee pot or a $600 toilet seat for the Pentagon." I think most farmers would be willing to contribute at least one coffee pot and one toilet seat if that might help the Department of Defense a little bit along this line.

[Applause.]

Senator **Leahy**. Now, Mr. Secretary, in an op-ed piece you wrote a few weeks ago for the Washington Post, you described your farm bill as one that the farmers want. Can you tell me the name of any agricultural group that supports your proposed dairy program? I did not notice it in the op-ed piece and I thought maybe I missed it.

Secretary **Block**. I cannot name a specific group, necessarily, but I would report that we heard recommendations of this nature from a number of farmers as we went across the country and listened to farm people testify.

Those farmers might have been a county farm bureau president; they might have been someone that was from a dairy community. They could have been from any walk of life that was interested in dairy.

So I do not think there is any question about it; there are a lot of people in dairy that support the approach that we are suggesting in dairy. The approach is an approach that dairymen rely on a marketplace; that we look to ending a program where the Government buys up the surpluses.

I think it is just utterly ridiculous that the Government is obligated to buy the surplus of dairy products, no matter how much the dairymen produce, and that is the way the program is written today.

We need to get down to a system where instead of the people that buy the dairy products looking to the Government for a market, they should be looking to new and innovative ways to package and sell and process dairy products of all kinds, whether it be cheeses or milk or whatever, because I think there are opportunities.

I do not see why our dairy industry is not out there looking for more opportunities, and I think they would if the Government was not standing there ready to take the product off their hands and relieving the industry of the responsibility of finding new markets.

Senator **Leahy**. Mr. Chairman, I have a series of questions. If I do not get a chance on the second round, I would ask the Chair's permission to submit some of them for the record.

The **Chairman**. Well, we will do that in the case of all Senators. We will file questions in writing and anticipate an early response in writing.

Senator **Leahy**. Thank you, Mr. Chairman.

The **Chairman**. Thank you very much.

Next is Senator Heflin, and after Senator Heflin, Senator Dixon, and just so you can wait with breathless anticipation, Mitch McConnell will be third.

Senator **Heflin**. Mr. Secretary, you have spoken of your market-oriented policy. I assume that it involves increased sales; that we would have to have additional sales. And I assume that if we are going to have additional sales, that means that they have to be export sales, primarily.

Secretary **Block**. Yes.

Senator **Heflin**. Now, if we are going to follow a market-oriented policy and have to acquire additional sales and they have to be export sales, the question is how are we going to acquire these additional export sales.

Do you need any additional tools to help acquire export sales, is my first question.

Secretary **Block**. Yes, sir; I believe it would be helpful to us to have an export title in the Agricultural Adjustment Act which not only authorizes guaranteed credits; I believe it should also provide for contract sanctity requirements. I believe that would give the world a feeling that we are going to be a reliable supplier and an assurance that they can use, although we have been demonstrating it for the last 4 years. But I think it would be good to have that in there.

I believe that there should be something in the trade title that says that the United States of America is not going to tolerate unfair trade practices that victimize the American farmer, and that we are prepared to take action against those countries that do this if, by a certain date, they have not made certain adjustments in their policies. That would be helpful, Senator.

Senator **Heflin**. Those are basically words. Are there any tools? Do you want any additional tools, like a different program from the present programs that we have?

Secretary **Block**. Those words, I would suggest, are requiring the Government to take that aggressive action. I believe we have most of the tools to do most of it; maybe not the mandate to do it, necessarily, but if a mandate is there, there is not going to be any excuse for not doing it. And it puts the other countries around the world that may be trading in an unfair way on record. They know what to expect and they know that they are being challenged.

Senator **Heflin**. Well, what you call the Agricultural Adjustment Act of 1985—does it have any provisions that give you any additional tools to acquire export sales, which are necessary in the market-oriented policy, than you presently have?

Secretary **Block**. It does not give us tools that we do not have, but it spells out the obligation to do certain things. And I believe that if the American farmer is asked to go to a more open-market approach to agriculture, then we are obligated to take some aggressive steps to protect our farmers in that marketplace.

To date, there are a lot of countries that are providing a lot of subsidies to agriculture. America is one. We are doing it, too; the United States is doing it, too. I can argue that our subsidies oftentimes are more for cutting production than increasing production. Yet, some of our subsidies do encourage production.

So I believe if we are going to ask our farmers to follow a market-oriented approach, we need to expect other countries to be fair with us in trade. Indeed, we have to demand that.

Senator **Heflin**. I understand your answer to the question was that your proposed bill does not contain any additional or new tools or programs. The existing programs are what you plan to use.

Now, you have been the Secretary of Agriculture for 4 years. Have you used those tools?

Secretary **Block**. I think we have used some of the tools extensively. I talked earlier about what we commonly call an export PIK when we moved wheat flour. We have moved dairy products into the Middle East and dairy products other places in order to challenge some of our competitors.

We have used blended credit, a combination of direct credit and guaranteed credit, to gain markets back from the European Community in North Africa, in particular, that we have lost.

We have used some of these tools, but I do not think we have ever used them as aggressively as we might find it necessary to use them if we indeed move toward an American agriculture that is phasing down supports. Then I think we expect other countries to do the same.

As I meet and talk to the European ministers of agriculture and the commissioners of agriculture, and even other representatives, they are terrified at the thought that American agriculture is going to be competitive and go in and fight for these markets.

They are very concerned about the fact that American agriculture is prepared to take some real action, because what we are saying is we will put our farm programs on the table; we are going to phase them down a little bit. We are going to reduce the amount of subsidies that we have, but we do not expect you countries over there to use big subsidies in beating us out of markets because we will not stand for it once we take this route.

Senator HEFLIN. Might I ask a point of order? Does my 7 minutes include his answers? [Laughter.]

The CHAIRMAN. Yes, sir.

Secretary BLOCK. It is such a difficult question, Senator, you understand.

The CHAIRMAN. It did not include your statement, though.

Senator Dixon.

Senator DIXON. Mr. Secretary, you and I engaged in a little discussion in one of the meetings that the distinguished chairman of this committee, the distinguished majority leader, my friend from Oklahoma and Senator Exon from Nebraska, held.

At that time, we talked about what a qualified farmer is under these programs that you and the President have made known to the public at large. Now, is it not a fact that under the U.S. Department of Agriculture's statistics, 8.8 percent of the farmers would not meet that test? They are not qualified because they have debt-to-asset ratios in excess of 70 percent, is that not a correct statistic?

Secretary BLOCK. I would like to ask Under Secretary Naylor——

Senator DIXON. 6.6 percent between 70 and 100, and 2.2 percent over 100, for a total of 8.8 percent.

Mr. NAYLOR. Senator, the requirement has to do with the resulting restructured loan, in which concessions either by us or by the commercial banking industry would be made to bring the level down below the one-point test.

Obviously, there would be some, that the judgment would be, that under no conditions could you help them because of the heavy leveraging or other problems.

Senator DIXON. Well, if I could interrupt because of the time constraints, it is a fact, is it not, that your own statistics show that 8.8 percent of the American farmers in America today have debt-to-asset ratios in excess of 70 percent?

Mr. NAYLOR. Well, in the group that we are talking about, that is approximately correct.

Senator DIXON. Nine out of every 100 farmers, then.

Now, let me ask you this question: Is it not a fact, in truth, that none of those will meet the qualified farmers test that my friend, the Secretary of Agriculture, has referred to?

Mr. NAYLOR. Senator, I think we need to clarify here that the requirement is that that 1-to-1 debt-to-asset ratio be below that after the debt has been restructured and reduced. So we are talking about making either concessions in principle or interest which would permit that adjustment to be made and bring down that level below the 1-to-1 requirement.

Senator DIXON. Are you suggesting that you would make adjustments in respect to those farmers, then, who have a debt-to-asset ratio in excess of 70 percent?

Secretary BLOCK. We are talking about debt restructuring. If the lending institutions will write down the principle enough, they can write down that principle to where the debt-to-asset ratio is below 70 percent. Once they do that, the borrower will qualify. Is that not right, Frank?

Mr. NAYLOR. Yes, sir.

Senator, I think the most crucial thing that we have sought for our farmers is to reduce their debt load under our concession or that of the commercial banks to where they have sufficient cash flow to be able to pay their bills and have some reserves.

That perhaps is the most crucial test of all that we make sufficient concessions to help that producer.

Senator DIXON. Well, let me jump to another subject here. I do not want to take all my time on that question.

Mr. Secretary, you referred to the fact of past embargoes and the damage they have done to the farmers. We would all agree on this committee with that. What do you do in your bill this year? I was the sponsor last year, as you know, of the amendment that was adopted to the Export Administration Act that provided that Presidents in the future cannot impose embargoes for more than 60 days without a majority vote in the House and Senate. That act, of course, died in conference committee.

Do you put some language of that kind in the act this year?

Mr. RUSSELL. Senator Dixon, it basically restates current law as it existed under the 1981 Act that this committee and the Congress passed back in December of 1981.

Senator DIXON. You mean you do not have a provision in there such as the one we put in the Export Administration Act that would put the Congress in the game with respect to the right of the President in the future to declare embargoes?

Mr. RUSSELL. That is correct.

Senator DIXON. You do not?

Mr. RUSSELL. We do not.

Senator DIXON. On the contract sanctity question you referred to, Mr. Secretary, some of us on this committee were cosponsors of that legislation, as you know. What do you now say about contract sanctity? What is the specific provision that you make in there?

Mr. Russell. Again, Senator Dixon, it is a statement of current law. It does not entail the additional language that was contemplated by you and others.

Senator Dixon. So the fact is that even in these areas, the bill that you are suggesting to us, this market-oriented bill, does not really say anything concerning the language that Congress has acted on the last 2 years in a row. Incidentally, I am not critical of this administration about embargoes. We appreciate the fact that the President lifted that last one.

But I think it is important to have language in there to put the Congress in a position where the Congress can curtail the power of the President with respect to embargoes. Now, twice, the Congress has acted affirmatively on that, on the Senate side where the administration has its people.

And I should think that the administration by now would know that there is very substantial support for curtailing the right for future embargoes. I would like to request that you consider putting that language in there, and the contract sanctity legislation that my friend from Minnesota and myself and others cosponsored in past sessions.

Secretary Block. We will take a look at that, Senator.

Senator Dixon. Do I have time, Mr. Chairman?

The Chairman. Keep rolling.

Senator Dixon. Mr. Secretary, in the discussion you have carried on here talking about opening the export markets, which all of us would agree with enthusiastically, I am concerned about the fact that in my own experience here in a short time—as you know, I think it was last year I sponsored the resolution when the European Common Market tried to prevent us from exporting corn gluten feed into the European Common Market.

They were going to contemplate a tax on vegetable oils there. Later, then, we had the resolution when the Canadian hogs were coming in here in such large numbers. Canada subsidizes its hog farmers. I do not need to tell a hog farmer from Galesburg that we do not subsidize our hog farmers.

The point I wanted to make, and I hear the bell has gone off now, there are any number of these instances. There is the fact that New Zealand will not let our nuclear ships into their ports, treating us like a banana republic.

We have got all this surplus dairy product we could flood the world market with, and that is all that New Zealand has to export into the world market. We have got the European Common Market thumbing their nose at us.

Despite what you may have said about beef, commercial grade beef is $27.50 a pound in downtown Tokyo, and we just took the voluntary restraints off automobiles they send over here.

So, what I am trying to find out is what in the world are we doing, if we are doing something in the world market? There is no evidence of it. [Applause.]

Secretary Block. Well, Senator, I think that your point is well taken that we need to be aggressive. As you know, we have on several occasions moved dairy products into the world market in competition with the European Community, to the alarm of the New Zealanders.

We have doubled the amount of beef going into Japan; they have doubled that opportunity for us, and approximately doubled the amount of citrus in there. So there have been some very tough negotiations going on.

But I would not close the door on more dairy products going into the world. There is every reason for us to sell some in the future, so that door is open. I think your point is well taken.

Senator DIXON. Well, Mr. Secretary, I sure do not think we owe any New Zealand administration the courtesy of this Government in view of what they have done with respect to our Navy's right to operate in their waters.

I thank the Secretary.

Senator COCHRAN [presiding]. Senator McConnell.

Senator MCCONNELL. Mr. Secretary, you did not bring up tobacco, and certainly I was not planning on it. But in response to Senator Melcher's observation about why tobacco might not be included in your proposed program, I might say that tobacco is not an appropriate subject since tobacco is costing the Government virtually nothing. It is the one commodity under which the producers themselves are assessed for the cost of the program.

I might say the assessment is approaching outrageous amounts as of yesterday, in which you announced it is going from 9 cents to 30 cents, a 233-percent increase, which we are certainly not happy with, but I do make the point, Senator Melcher, that tobacco producers are paying for the program themselves. That is an appropriate reason for that commodity not to be included in the movement toward the free-market economy that you are advocating for the other commodities.

Let me say, Mr. Secretary, that I think that every one of us here today has said in a slightly different way that the key to the support of most of us—certainly of this Senator—for the rapid movement toward a free-market economy is going to depend on our ability to expand our markets.

Every single Senator I have heard here on both sides today has been concerned about promoting exports, and I think it is in that area that we are all going to be honing in on and looking for your creativity in promoting the export of our products. It seems to me that is obviously the key.

I will yield back, Senator Cochran, the balance of our time, and let us go on down the aisle.

Senator COCHRAN. Thank you, Senator.

Senator Boren.

Senator BOREN. Mr. Secretary, I was very glad to hear that no one had deliberately misled the President on that statement he made in which he repeated in two separate sentences that 96 percent of the farmers do not have a liquidity crisis.

I gather it is very clear that this was a misstatement and that no one in the Department advised him of that figure. Is that correct?

Secretary BLOCK. The President just misspoke and I think that——

Senator BOREN. So the President's statement was incorrect?

Secretary BLOCK. Yes, it is incorrect, absolutely.

Senator BOREN. All right, and did anyone specifically advise the President of your own report, which I am anxious to have you release? I think it would have been helpful if it had been released to the Senate before we had the vote. Maybe we would have had so many votes that there would not have been any tendency to veto.

Within 1 year, according to your own projections, 65 percent of the farm debt, whereas now 46 percent of the $214 billion of farm debt will be held by farmers who have liquidity problems, who have a debt-to-asset ratio above 40. Additionally, you assume a five-point decline in land values, which I think is very optimistic. If we had an eight-point decline and lost 1½ percent of our farmers, it is very optimistic to say it is only fall 5 percent if we lose 5 percent of our farmers, which you yourself are estimating.

We will have 65 percent of the $214 billion of debt in the hands of those with debt-to-asset ratios above 40 percent. Was the President specifically advised of that before he took this action yesterday?

Secretary **Block**. Yes, sir. The President has all of these latest figures.

Senator **Boren**. So he had those figures. What about the factsheet? We get into another point. This is the factsheet handed out by the White House yesterday that says that one of the reasons he is vetoing the bill is that it takes the $650 million cap off the Loan Guarantee Program.

Was the President informed that he himself had agreed—and, again, you and I know what was said in your letter, and it states by authority of the President that the cap was removed. We were told again and again that if it took $2 billion or $3 billion, whatever it took, it would be available. We have heard that statement repeated today.

Why did the President again refer to a $650 million cap in the fact statement issued by the White House, as he was informing the American people yesterday, when he himself had already agreed the week before in negotiations to remove that cap?

Secretary **Block**. I do not have that fact statement before me, Senator, but I think——

Senator **Boren**. Well, I will quote it to you. It says, "It substantially and unnecessarily increases the level of loan guarantees for debt adjustment of borrowers served by private lenders above the administration's $650 million program." And, as I've said, he had already agreed to remove the cap the week before.

Secretary **Block**. Well, it certainly does not suggest, then, that that cap is there and it cannot be moved. I think you have to analyze the statement.

Senator **Boren**. Why was it said, then?

Secretary **Block**. The President has said more than once and he has made it very clear—and my letter, Senator, to you that I handed to you and other Senators points out clearly that I have talked to the President, and it is true. I talked to him that day that I gave you the letter and he understands, and we all agree, that if that money is used, there will be more money.

Now, I do not understand the exact wording of that thing, but there is more money there if the need is there. I hope the banking institutions go in and make it work because we want it to work.

Senator **Boren**. I have to only say I assume it was there to imply to the American people there was more cost to these bills than there really was because he had already agreed to remove the $650 million cap.

Let me ask this question: In a briefing which we had in a breakfast meeting, many members of the House and Senate agriculture committees, at the Department several days ago, as I understand it the estimate was given—and I believe you were the person who gave the estimate—that under the administration's farm bill, the Department estimates that net farm income will fall during the coming year by approximately 20 to 30 percent. Is that correct?

We have heard some figures on gross income, but the problem is farmers cannot pay off their debt with gross income if they do not have a profit. So we are a little interested in that.

Secretary **Block**. Were we talking about 1986, Senator?

Senator **Boren**. Yes.

Secretary **Block**. That is about right, but if you look at our charts, it is probably going to be close to that even if we went with a mandatory program.

Senator **Boren**. So you assume under the program that you have outlined that there will be approximately a 20-percent reduction in net income. Then we have the figure given in your report, in your Bulletin 490, that indicates that for us to have positive cash-flow for family farms, commodity prices need to go up by 32 percent.

We already have, as I said, 46 percent of the debt in the hands of those that are experiencing severe problems. Mr. Secretary, to be very blunt about it, you are proposing something that you yourself think will result in another 20 percent decline in net income. We were told in my home State 90 percent of the farmers lost money last year. We need a 32-percent increase to have a positive cash-flow.

Do you think that given the amount of production that we now have in this country and the world market conditions, that really what is behind this program is a feeling on the part of the Department that there are too many farmers in this country and that there should be some program adopted to phase those people into other kinds of occupations?

Secretary **Block**. Senator, you know that I do not believe that. You know that I would like to see all of the farmers that are on the land stay. We have, however, in the last 50 years seen an evolutionary process of farmers leaving the land. They leave for a lot of different reasons.

I believe the main reason they have left is advancing technology which has effectively seen man displaced by machines. That is going to continue, probably, to some degree. I hope it does not accelerate.

I know that we are in a period right now with tough times in rural America. It could not be any tougher, probably; I guess it could, but it is pretty rough. And we are probably going to see more casualties now than we would see under normal conditions.

For the whole committee and anyone listening, you know we can provide more income to agriculture, I guess, in only one way that I know of right now, and that is if the Government spends more. It is going to be depending on how much this committee and the Congress and the administration and the people of the country are willing to spend on farmers.

If we decide that *x* amount is the right amount, the same amount we spent last year, more money or less money, that is going to be the decision. But moving to a market-oriented policy versus moving to a mandatory or heavy control policy—the truth really is in the long run farmers are going to make more money with market-oriented agriculture than they are with mandatory controls.

Mandatory controls are not going to put more money in the farmer's pocket, and I think that is just the simple fact and that is what we are trying to point out today. We have a tough choice to make, but we ought to make a choice that is going to be in the best longrun interest of agriculture.

The **Chairman**. The next three Senators are Senator Hawkins, Senator Pryor, and Senator Harkin, and following them Senator Boschwitz and Senator Cochran.

Senator Hawkins.

Senator **Hawkins**. I have several questions to ask you, Secretary Block. You have been answering them for many days now and I appreciate your tolerant attitude and your willing spirit to get the farmers farming again.

I would like to associate myself with the remarks that Senator Leahy made. He said that we are the only country with military power that feeds itself. We feed ourselves and our enemies. Now, that makes a big difference when you look at it that way.

I am concerned about exports. You and I have sat in many a meeting. We have filed charges against the Japanese with their attitude toward citrus, and it caused such a stir, that it almost became an international incident. But we are serious and our efforts are working, however slowly.

But to follow up on all the questions that the Senators have said, what tools do you have? What tools can we give you on the Agriculture Committee, or does it take another committee to meet on this to give you the proper tools to make sure that we have fair competition?

Secretary **Block**. Senator, I believe that basically the tools are there today, but the backing and support and encouragement of Congress by passing legislation that requires that certain things occur if we do not see some progress made—I think that can be helpful.

I do not know that you would call that a tool because it is not a tool, but it certainly is a kind of encouragement that can be useful to us in approaching the problems of unfair competition in agricultural trade.

Senator **Hawkins**. Well, I would like to work with you on developing a hammer that we could use that would be less expensive than if the Defense Department bought it, but that we could use on these countries because obviously we have to get their attention.

We are trying here today, as I understand it, to work on an agricultural bill. It is not only a farm bill, but an agriculture bill, and we are here to work on developing a working agricultural bill.

It looks to me like the money is there under your debt reduction plan for the credit emergencies that many farmers are experiencing. Is there anything in the future we can do to get the banks to go along with it?

I mean, you have said several times in your testimony that this will work if the banks allow it—that is a pretty big predicate.

Secretary **Block**. Well, the agricultural bill will not become law in time to be helpful. Really, we are not going to pass anything to change the situation. I believe that the adjustments that we have made in the regulations, which were, in fact, requested by the banking institutions—we will open the door for the program to work and I am very optimistic.

I predict, indeed, that they will use the money. They are going to go ahead and make it work. They have been standing back watching to see what was going to develop in the Congress, and it is time we said this is it; go make it work. The planters are going to be running very soon and we need to get the money out in the farmers hands.

Senator **Hawkins**. I may have several other questions for you regarding the marketing practices of other countries.

I appreciate so much your being here today. Thank you.

Secretary **Block**. Thank you, Senator.

The **Chairman**. Thank you, Senator.

Senator Pryor.

Senator **Pryor**. Thank you, Mr. Chairman.

Mr. Secretary, one of the areas we have discussed is this so-called strong export section in your legislation. Would not a different treatment of cargo preference on agricultural commodities, shipped overseas, be a possible tool?

Secretary **Block**. Senator, you are absolutely right, and I believe it is time we took a new look at cargo preference and how it is applied because of the fact that cargo preference has now been extended to blended credit.

I believe that is excessive, but the court ruled accordingly and it is time we figured out a way to let someone else pay the cost of cargo preference and not charge the American farmer.

Senator **Pryor**. Now, Mr. Secretary, Senator Leahy just a few moments ago asked you a question something like this: Is there any farm group that supports the section on dairy?

Let me ask a broader question. Is there any farm group in America, thus far, that has come out in support of your agriculture program? Is there any farmer in America who has come out for your agriculture program?

Secretary **Block**. No, sir, and I do not think that it can be expected. The program is very broad in scope; it covers all commodities—basically, all the commodities that are up for renewal this year.

Certainly not; there is no farm organization or group that supports the whole package. I will say—and I am firmly convinced of this and I believe that the direction we are talking about is the right direction, and the vast majority of farmers do believe in, No. 1, some kind of finite budget control as we address farm programs; and, No. 2, farm policy that provides for less Government and not more.

If we can succeed in moving in those two principal directions, we will have made some progress in agricultural policy, and that has broad support.

Senator PRYOR. Mr. Secretary, do you agree or do you disagree with the statements made in the last several weeks by the Director of the Office of Management and Budget, Mr. Stockman, relating to the agriculture policy of our country?

Secretary BLOCK. I did not appreciate the way Mr. Stockman characterized the American farmer. I believe that the problems the American farmer faces today have been certainly, in part, the farmers' fault, but I believe in large part to circumstances beyond the farmers control.

Many of those circumstances—powerful international forces of collapse in the world economy and a strong dollar and high interest rates—the farmers have been trying to hold back the storm and I look upon the American farmer as a hero in the eyes of the world.

Senator PRYOR. Mr. Secretary, many farmers across America say that all the export subsidies, all of the tools that we have in international trade, and all the other things that we discuss do not have the bearing as much as if there were something in this legislation or some other piece of legislation that relates to price, p-r-i-c-e, for those commodities the farmer produces.

What is there in this piece of legislation that would give a farmer in this room or anywhere in America at least the faintest hope that the price of the product he produces might go up so that he can ultimately have a positive net income?

Secretary BLOCK. Well, Senator, one thing the legislation does not do is it really does not guarantee a price, this Agricultural Adjustment Act. I know that there are those that think there should be a guaranteed price, and I appreciate their point of view.

But I believe that if you guarantee a price, in the final analysis you are going to have more and more people shooting for that price and producing more in the United States and other countries, and this will precipitate severe controls on production. We will have to look at this mandatory production control program of some sort that I pointed out here earlier.

So that is one way to get a price, but I do not think it is in the long-range best interests of agriculture.

Senator PRYOR. As to competing with our trading allies, Mr. Secretary, could you furnish this committee any proof that if we adopted this section of your proposal that the Department of State would be in support of and that they would amply come forward with the sanctions or the leverage we need to force some changes in our trading policy?

Secretary BLOCK. Senator, this Agricultural Adjustment Act, including the tough trade policy in the trade title, was approved by the State Department and is the President's policy, and we are prepared to go forward with it if it is passed.

Senator PRYOR. But what proof can you show us that the State Department will stand behind the farmers of this country and help regain some of those markets?

Secretary BLOCK. Well, the proof is that it is the President's farm bill. It is not the State Department's farm bill, and the President is in charge.

Senator PRYOR. Does anyone at the State Department have any interest in American farmers?

Secretary **Block**. I believe that Secretary Shultz is interested in the American farmers, not to the extent that he knows farms in Kansas or Illinois. He does have a farm in Vermont.

However, his interest in agriculture is because he is interested in the country. He is an economist. He knows how important agriculture is to this country, and consequently he does have an interest in agriculture.

I will report to this committee that Secretary Shultz has been very helpful in working on trade issues, and I have not found the Secretary to be anything but very accommodating to agriculture's needs. We will continue to push ahead.

Senator **Pryor**. Thank you, Mr. Secretary.

The **Chairman**. The Chair would note that Senator Harkin will be next. Senator Boschwitz, if he returns, will be next, and then Senator Cochran.

If I may interpose a question here, you had to respond no, Mr. Secretary, when you were asked if there was any farm organization or any farmer who supported your bill, your proposal.

Let us put it the other way. Do you know of any farmer or any farm organization supporting the continuation of the present policy?

Secretary **Block**. No, and I do not know of any farm organization that ever supported any farm bill that has come forward in total.

The **Chairman**. Senator Harkin.

Senator **Harkin**. Thank you very much, Mr. Chairman.

I just want to follow up on one question and I want to read the quote directly as it was taken from the wires yesterday when the President vetoed the legislation.

> The truth of the matter is that those in need of immediate help are less than 4 percent, or about 4 percent, at best, of all the farmers in the United States; 96 percent do not have liquidity problems.

That is a direct quote from the President.

Now, did you say that that was wrong?

Secretary **Block**. Yes, sir, that is wrong and it is misstated.

Senator **Harkin**. Well, who gave him those figures?

Secretary **Block**. He misspoke because he has said before, and he understands, that about 4 to 5 percent of the farmers are going to fail. That is what he is really talking about. The 4 percent have liquidity problems to the extent that they are going to fail. He knows quite well that there are many more than that that are in very severe financial condition.

Senator **Harkin**. Well, I hope that you will correct him, but I hope you will also take your most recent document coming out of the Department of Agriculture which says that 30,000 farms were insolvent, having debt-to-asset ratios over 100 percent, and these owed 6.5 percent of all farm debt.

When you add those up with the 34,000 that have debt-to-asset ratios between 70 and 100 percent, actually you have almost 10 percent of the family-size farms. So even if he was saying 4 percent, he is not right, of those that are going to go under.

What you are saying is about 10 percent from your own data.

Secretary **Block**. I do not think those will all go under. Some of those with debt-to-asset ratios beyond 70 to 100 percent will not fail. They may eventually, but I do not believe they will fail this year, Senator. [Laughter.]

Senator **Harkin**. Oh, I see. So it is this year, then, not next year, all right. I just hope that you would correct the President on that because it has been my feeling for a long time that he really is not understanding the severity of this problem that confronts us.

As I said the other day, you know, you can look at these averages and you can say that an average of maybe 6 percent or 4 percent, or whatever you want to say, in the country are in problems, but in Iowa it is much greater than that. Iowa State University said that 28 percent of our farmers are slipping into insolvency.

And last time I checked, Iowa was still part of our great Nation of ours, you know. We are still part of the Federal Union. Telling our farmers this average business is like telling a 20-year-old person that is dying of cancer that the average life expectancy in the United States is 72. It really does not mean much.

That is what is happening in Iowa. We are dying and we do not care about these averages. We know what is happening in Iowa and we think that it is time for this Nation to do something about helping these farmers not only in Iowa, but in other States.

Now, let me ask you, under your program that you have asked to consider and to pass, what is going to happen to the net income of our family-size farmers over the next 3 to 5 years? What will the net income be to those farmers? Will it go up or will it go down?

Secretary **Block**. The first 2 years, the net income will be down and then it will be higher than it would have been before as it goes up the last of the 5 years. The only way to keep it from going down in the early years is to have more government payments. You cannot keep it from going down by mandatory controls.

Senator **Harkin**. Well, Mr. Secretary, let me read from your publication that just came out comparing permanent legislation and no farm program at all. Average net income per farm in 1984 averaged $14,400, $11,400 in 1985, and now starting in 1986 under your proposed bill it would drop to $6,850, $7,100 in 1987, $8,750 in 1988, $7,850 in 1989, and $8,400 in 1990.

That is what you are estimating will happen to net farm income. Is that what you want?

Mr. **Russell**. Senator Harkin, that publication that you are reading from is a comparison of going back to permanent law, to 1938——

Senator **Harkin**. I did not read permanent law. I read what you said would be the net farm income. I will give it to you; it is on page 41.

Mr. **Russell**. You did not let me finish. That is a comparison of permanent law to having no farm legislation whatsoever. It is the two extremes that we studied.

Senator **Harkin**. But that is your bill, under no supports. If you look at the front of your book, the listing you have under no supports is your legislation that you have proposed to us.

Mr. **Russell**. No. Our legislation is not no supports. We have a series of target prices and price supports that are phased down to market-oriented levels over a period of 5 years.

Senator **Harkin**. Do you have any economic data that will show us what net farm income is projected to be for these outyears under your legislation?

Mr. **Russell**. I can give you some figures on net cash income. I do not have the figures for net farm income, but I do for net cash income.

Senator **Harkin**. Well, I would like to have those sometime. If you do not have them now, you can send them up sometime. I would like to take a look at them. I would like to have Iowa State take a look at them, too.

Mr. **Russell**. That publication you are reading from is not a comparison of our bill to permanent legislation. It is having no farm programs to permanent legislation.

Senator **Harkin**. Well, why would you have a whole publication in which you examine no supports at all when no one is even talking about that.

Mr. **Russell**. Because we thought it was important to compare what the two extremes would be from the debate standpoint. In other words, the debate is——

Senator **Harkin**. But no one is proposing either one of those extremes. I mean, why waste all the time and energy of the Economic Research Service? Let us take a look at what you are proposing compared to some of the alternatives that others have.

Mr. **Russell**. Well, we do have the analysis done relative to our bill.

Senator **Harkin**. I beg your pardon?

Mr. **Russell**. We do have analysis done relative to our bill.

Senator **Harkin**. Well, I have not seen it. You have not sent it up; you have not sent it up to us to take a look at.

Mr. **Russell**. No, we have not.

Senator **Harkin**. Well, I would sure like to take a look at it before we start doing it. You will send up the economic data to support your legislation?

Mr. **Russell**. Yes, sir, we will.

Senator **Harkin**. I would appreciate that.

Just a last thing, Mr. Secretary. We always hear this talk about world market-clearing prices, just to follow up when I talked to you the other day when you appeared before the Appropriations Committee.

Can you tell me what the world market price is of a bushel of corn? I checked the other day. In Iowa, it was $2.43, in central Iowa. It was about $2.73 in Chicago. It was $3.75 in Rotterdam, and about $5.60 in the European Community.

Could you tell us what is the world market price for a bushel of corn?

Secretary **Block**. The price of that bushel of corn varies in different parts of the world depending on, No. 1, transportation. It is not worth as much out in the heartland of Iowa or Minnesota as it is on the river someplace, so the transportation charge is different.

It is worth a different price in the European Economic Community because of their levy system. So, depending on where you are looking, there is going to be a different price, but the countries of the world are all competing for the markets wherever they are, so there is a world market price.

When a country is looking to buy a bushel of corn, they will shop around to see where they can get that bushel of corn, equal quality, at the best price. And if we are unprepared to compete in that world market, it will be bought someplace else.

Senator **Harkin**. Well, my time is up, but I would like to pursue this with you further. Thank you.

The **Chairman**. Senator Cochran.

Senator **Cochran**. Thank you, Mr. Chairman.

This morning, Mr. Secretary, we had an opportunity to hear a presentation of a proposal by the National Council of Farmer Cooperatives for a support program that would be different in some interesting aspects from the program that we have now under current law.

Specifically, it would take the Commodity Credit Corporation out of the business of marketing commodities that end up being forfeited under the loan program, and it would permit farmers to actually be in the business of doing their own selling.

Have you had a chance to take a look at that proposal at this point?

Secretary **Block**. I have looked at it, Senator, and I would ask Randy Russell to comment on it. He is very, very familiar with it.

Senator **Cochran**. Well, let me ask you this: As I understand the proposal, one thing that would be changed immediately would be the provision of the law now that prohibits the sale of commodities by the Commodity Credit Corporation for any amount less than 115 percent of the loan rate.

Is that your understanding, that this is the same proposal we are talking about?

Mr. **Russell**. Yes, sir.

Senator **Cochran**. What is wrong with making that change in the law?

Mr. **Russell**. Well, Senator Cochran, I think it has to be viewed in terms of what else you are going to put with that program. In and of itself, what the loan rate effectively becomes is a target price under that system. When you make the loan after harvest, under the plan proposed by the National Council of Farmer Co-ops, the producer would pay it back at the monthly price whenever he chose to repay it.

So if you took a loan out at $2.50 for corn and the monthly price in February was $2.30, you would only repay it at $2.30. So, in effect, it is a deficiency payment program. Now, if you threw a target price on top of that, let us say, at $3.03, where the corn target price is today, then, in effect, the producer is facing is double deficiency payment, and that could be a very costly program if a target price is put on top of that.

Senator **Cochran**. That is assuming that the market price is going to be forced downward very sharply. It could be an expensive program, but it does not necessarily have to be an expensive program.

Mr. **Russell**. That is correct. Under the assumption I made, it would be. Depending on where the market price was, it could be no cost.

Senator **Cochran**. Under that program, too, there would be, as I understand it, no limitation of payment to any individual farmer.

Mr. RUSSELL. That is correct.

Senator COCHRAN. Comparing that with your proposal, you are suggesting a $20,000 payment limitation, are you not?

Mr. RUSSELL. Yes, sir.

Senator COCHRAN. I have some questions that I have prepared which I want to submit in writing relating to the donation of some ultra-high-temperature milk through private humanitarian organizations.

There was a provision of the 1984 act that has some guidance for that program, and I hope you will be able to respond to these questions in due course.

Secretary BLOCK. Yes, sir.

Senator COCHRAN. Mr. Chairman, I do not have any other questions, except to say that I appreciate the Secretary being here before the committee today. We had an Appropriations Committee hearing at which he testified this week. He is spending a lot of time up here on the Hill.

We appreciate your being here and helping the committee with your testimony.

Senator BLOCK. Thank you, Senator.

The CHAIRMAN. Let us see what our time situation is. You have been here over two hours, Mr. Secretary, and someone told me you had a commitment at 4:30 at your office. Is that correct?

Secretary BLOCK. Yes, 4:30.

The CHAIRMAN. All right. I know that at least two Senators have indicated they wanted to have at you one more time. Senator Melcher was the first.

Senator MELCHER. Thank you, Mr. Chairman.

Mr. Secretary, is it true that this market orientation as you use it in effect, is lowering the price to sell more abroad and would result in 2 or 3 years of lower prices? Is that correct?

Secretary BLOCK. Prices would be lower for 2 or 3 years.

Senator MELCHER. Let me make an observation. Probably, the total supply of food in the world is about what we need. It is the distribution of food that has interfered with getting it where it is needed.

We have had study after study. One of the more recent was, I think, released just 10 days ago a physician study on hunger in America. They have stated that their findings are that 20 million people in America are hungry to the point of needing more nourishment. They are malnourished to some extent.

Just few days more than a year ago, a study released by the University of Mexico showed that 35 percent of their entire population was malnourished. I only mention those two studies. There are many others, all of which indicate that the supply of food in the world is probably not overly abundant for the needs.

You mentioned wheat. In fact, you give it quite a little mention here in your examples. You are talking about wheat as if there is a huge surplus, and there is more surplus than I think is necessary and I think it does drag down the price.

But you testify that on one hand, we want to get this surplus of wheat down, but then on the other hand your testimony does not mention the fact that not all of the opportunities for using surplus wheat in our food programs have been utilized. I want to mention one in particular and that is section 416.

I do not think there has been one single bushel of wheat utilized under section 416 to date, has there?

Secretary **Block**. I think, Senator, you are talking about export movement of wheat through 416 to hungry people?

Senator **Melcher**. That is correct.

Secretary **Block**. We are working with AID right now and we should very soon be coming up with some movement of wheat under this very section that you are talking about.

Senator **Melcher**. That is the point. It has been in the law since last April, almost a year. It is not very difficult to try to utilize a tool that you have. You have been responding that you have tools and you have been using them, but this is one you have not used.

As to the cost of the programs, I do not believe that we should spend extra money out of the Treasury. In fact, your charts demonstrated that you have presided as Secretary of Agriculture, paying out Treasury dollars to get farmers in the second worse shape they have been in all the history of this country. The early thirties was the worst.

Those figures that you show totaling up to $62 billion projected out for the next 4 years are costs accumulated during the time you have been Secretary. Some of us think this reflects mismanagement of the programs that are available by not utilizing those opportunities to dispose of the surplus commodities.

On one hand, you talk about market orientation, which is lower prices; and then, on the other hand, you suggest 45-percent mandatory retirement of cropland is the only alternative.

Mr. Secretary, that is more than Ezra Taft Benson ever dreamed of putting in a misbegotten soil bank program. You have contrasted your program to a massive set-aside of land into a soil bank or whatever you want to call it.

There is an in-between, and that in-between does not require a great deal of mandatory retirement of land.

The land that is set aside should be set aside for conservation, and that has always been proposed to be 10 to 20 percent, or something like that. That is plenty, just so they are getting it in good rotation.

I think, Mr. Secretary, your program of wringing out all these excess farmers, as if you know how many excess farmers there are, or going to that 45-percent set-aside, is contrasting two outrageous ideas that we could not possibly accept. We will find something in-between that big, huge, massive set-aside and the idea of forgetting about price and going to no price. I hope you can shift, I hope the Department can shift, I hope the administration can shift somewhat so we can really say we are working in a bipartisan manner.

We will be bipartisan on this committee with an in-between bill.

The **Chairman**. The Secretary may respond, then he has got to go.

Secretary **Block**. Senator, the in-between of what you are saying is right. I mean, we would not have to be one place or the other, but these two programs cost, in our economic analysis, the same amount of money. If we move in between the two, we will have to spend more money.

I am not saying that we will not agree to it in the final analysis, but we have to realize that that is a conscious decision that the Congress and the administration will make.

Senator **Melcher**. I disagree with that. There are other economists in the world, and we talked to some of them. You simply can't just take a whole bunch of economic data and conclude the only option is to spend *x* number of dollars.

There are ways to go where we can spend less money by far than what you have been spending on farm programs that have not worked, and we think we can make them work, Mr. Secretary.

The **Chairman**. Well, I had hoped we would get to two Senators. Can you take one more question from another Senator, if there is one?

Senator **Heflin**. Well, I have several. Is the Secretary going to return to where we can finish?

The **Chairman**. Pardon?

Senator **Heflin**. Is he going to return to where we can finish? I mean, we scheduled the Secretary to come on this farm bill. I suppose it is important. Are you going to schedule him to return so we can finish questioning or are we going to cut it short?

The **Chairman**. Well, I do not think it has been very short, Senator.

Senator **Heflin**. Well, I do not expect——

Secretary **Block**. Senator, I will try to stay longer if you want to pursue this.

The **Chairman**. All right.

Senator **Heflin**. Am I next, Mr. Chairman?

The **Chairman**. Whoever gets the ball goes down the court.

Senator **Heflin**. Well, all right, sir.

Mr. Secretary, I will not be very long, but I do want to follow through on some line of questioning that I was asking you. We were talking about the market-oriented program and you testified, in effect, and answered to questions I had that, No. 1, the program is dependent on increased markets; No. 2, that the increased markets will have to come from export sales; No. 3, that you do not need any new tools to help you acquire export sales; that your present tools are adequate.

I was asking you how you had used your tools and you were answering that. Now, I would like to refer you to this year's legislation which is in effect this year, in which the Commodity Credit Corporation is authorized to carry out the GSM-102 Program, the Export Credit Guarantee Program, of not less than $5 billion in short-term credit extended to finance export sales of U.S. agricultural commodities.

In that, there was an additional $2 million which was added primarily for the export sale of cotton and soybeans. Can you tell us how much of that has been used?

Mr. **Russell**. Senator, of the $5 billion in GSM-102, about half of it has already been programmed. I do not have the figures with me in terms of what the allocations are.

Senator **Heflin**. Well, if it is for programs between now and the end of the fiscal year, then it will not be spent?

Mr. **Russell**. I think it is our indication that we will use virtually all that $5 billion for this fiscal year, just like we did last year; we had $5 billion.

Senator **Heflin**. Well, according to the information I have, you have used very little of it. And in the amount that has been allocated for cotton and soybeans under the language here, very little of that has been used. I would like if you would give us answers in regard to this as to how much has been programmed.

Of course, after something is programmed, in order for it to be spent there is a considerable lapse of time. You almost have to have something like 4, 5, 6 months between programming and expenditure—or paperwork; it is not expenditure of money because it is a guarantee program. So I would like to have information on that.

Mr. **Russell**. We will provide that both on cotton and soybeans.

Secretary **Block**. We assure you, Senator, that we are going to use that money. It is our intention to use it, but we will get the information for you.

Senator **Heflin**. All right. Well, I was also looking at your charts and was rather astounded to learn that from 1981 and 1982, where the United States had—I believe your figures were at that time 48 percent of the wheat market of the world, according to your charts.

Now, that is after the Afghanistan embargo, I believe it would have been in 1981 and 1982, when we entered into a trade agreement with Russia on wheat. Yet, in 1984 and 1985, in accordance with that chart, we had dropped to 36 percent, or a 12-percent loss in the world wheat market. We have not had any other embargoes since that time.

It would appear that we are on the reverse side and losing ground with the tools that we presently have relative to the wheat market and trying to obtain export sales. How do you account for this 12-percent loss?

Secretary **Block**. Well, we have gained back substantially in the Soviet Union as a market there since we have lifted the embargo and written a new agreement there. We are looking at selling a record amount of grain to the Soviet Union this year, so we have come back there.

However, worldwide, you are absolutely right; we have lost a percent of that market, and we have lost it for two reasons, in my judgment. We have lost it because we have had inflexible price supports that have tended to price the United States out of the market. We have lost it because of the strong dollar, and I guess a third reason would have to be unfair competition from some countries.

The **Chairman**. Senator Boren.

Senator **Boren**. Mr. Secretary, a while ago you were talking about the fact that all eligible farmers under the Loan Guarantee Program and the Farmers Home Direct Loan Program would have funds available. No farmer would be turned away because of a shortage of funds.

I think we realize that many of the farmers who are most caught in the trap right now are those farmers who have had their loans previously at banks and the farm credit system. And now, through no fault of their own—they are not even behind on paying their loan—land value in the area has dropped 25 or 30 percent. The bank or the PCA says, come up with more collateral, and they do not have anything but that farm.

Now, those people, then, are left with no place to go unless they can come back as new customers for the first time to the Farmers Home Administration under the Direct Ownership Program.

I want to ask specifically, did your comments in regard to funds being available and no eligible farmer would be turned away—did that also apply to farmers who, for the first time, are asking for participation in the Direct Ownership Loan Program?

Secretary **Block**. We are taking new customers for operating loans, but we are——

Senator **Boren**. No. We are talking about people losing their farms. Is it true or is it not true that whatever funds are necessary to serve all eligible under the Direct Ownership Loan Program will be made available? Do we have that commitment?

Secretary **Block**. You are not talking operating, though. You are talking——

Senator **Boren**. I am not talking about operating. I am talking about direct ownership because in many cases these farmers have no place else to go.

Secretary **Block**. We have a limited amount of money in ownership loans and we are concentrating our money to help in the area of operating loans to put farmers in the fields.

Senator **Boren**. So the answer is——

Secretary **Block**. We may not have enough to satisfy everyone; in fact, we will not.

Senator **Boren**. So the answer is no, there may not be enough money available for all those farmers who are eligible who are coming in trying to save their farms and apply for direct ownership money; is that correct?

Mr. **Naylor**. Senator, the term "available" under the operating loan provides terms up to 15 years, and for restructuring or meeting operating needs——

Senator **Boren**. No, I do not want operating. I want to stay with ownership.

Mr. **Naylor**. I understand what you are saying on ownership, Senator, but by no means is the Federal Land Bank, which is the principal lender—it has over half of the market share—not in a position to be able to continue to offer real estate credit to its borrowers. There are adequate funds available. They have over $13 billion worth of reserves available to them.

Senator **Boren**. Even to those where the value of the land because of a reduction in land values is below their minimum requirements?

Mr. **Naylor**. The Land Bank Associations have continued to work there and exercise a good deal of forebearance. What you are talking about is dealing with current operating credit needs for the current year?

Senator **Boren**. No. My question.

Mr. **Naylor**. Senator, if you are talking about buying new land——

Senator **Boren**. Mr. Chairman, could I have a right to ask my own question and have it answered rather than the question they want to answer?

The **Chairman**. Well, if the Senator would just——

Senator **Boren**. We have waited for 2 months without a hearing in this committee and I would like to have the right to ask my own question.

The **Chairman**. Well, I am just asking that one person talk at a time.

Senator **Boren**. Well, I know the answer on the operating loans and I want a yes or no. Are we assured that there will be adequate money in the direct ownership—that is the word, "ownership"—program to serve all eligible farmers that come to the Farmers Home Administration asking for it, yes or no? That should be very simple.

Secretary **Block**. No, sir, there will not be in ownership loans.

Senator **Boren**. OK. Now, my second question is on the five-point origination fee. As you propose to phase out the direct loans under your program, the direct farm home loans will be phased out and brought down to $400 million over a 3- or 4-year period.

You propose that we finance a new fund by having a five-point origination fee, which means five extra interest points; if a farmer is paying 13, it will go to 18. You also propose a five-point origination fee on export credit.

My question is how would those five-point origination fees help the farmer or help the export sector by raising the cost of credit?

Secretary **Block**. The five-point origination fee does what you say in the second process. It does raise the cost of credit; it does provide for a means of paying for the origination. It is an across-the-board consideration in every loan program in Government, and if it does not stay in all of them—it is not in the Farm Lending Program, but right now it is everywhere and everyone pays it.

Senator **Boren**. Thank you, Mr. Chairman.

The **Chairman**. Mr. Secretary, I think you are going to be late for your appointment, but thank you and Mr. Amstutz and to everyone else for coming.

Secretary **Block**. Thank you, Mr. Chairman.

The **Chairman**. We stand in recess.

[Whereupon, at 4:26 p.m., the committee recessed to reconvene at 9:30 a.m., Thursday, March 21, 1985, in room 328-A, Russell Senate Office Building.]

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

Livestock and Poultry Issues

THURSDAY, MARCH 21, 1985

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:37 a.m., in room SR-328-A, Russell Senate Office Building, Hon. Thad Cochran presiding.

Present: Senators Cochran, Andrews, McConnell, Zorinsky, Leahy, Melcher, Dixon, Heflin, and Harkin.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. The committee will please come to order.

This morning, we continue hearings relating to the 1985 farm bill.

U.S. agriculture has effectively handled many complex and important challenges in the past, and this year we are faced with some very important decisions that have to be made. These decisions are going to affect not only those who are involved in the commodities that are directly supported by the farm legislation passed by Congress, but also those who are indirectly affected by the provisions of the farm bill.

This morning, we will be hearing from witnesses who probably fall into the latter category.

Farmers generally are faced with a very serious problem of inadequate return on their investment, especially considering the level of risk associated with the agriculture business.

I believe the issue of profit to producers must be the central theme this year, as Congress writes new legislation. We have to find a way to create better opportunities for farmers to operate profitably.

It is easy to conclude, looking at the current state of the economics of agriculture, that action is necessary. Agriculture is far too important to our economic health and well-being as a nation for necessary improvements not to be made.

I hope this series of hearings will help the committee identify some of the changes and actions that should be taken.

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We will be hearing today specifically from the livestock and poultry industry.

I am glad we have Senator Howell Heflin, my friend from Alabama, here with us this morning. Senator Heflin, do you have any opening comments or observations to make? If so, you are certainly recognized to do that at this time.

Senator **Heflin**. The purpose of the hearing is to hear, so I am here to hear.

Senator **Cochran**. That is a welcome change from what we sometimes have at our hearings.

Our witnesses this morning will, I hope, be able to restrict the duration of their presentations to the committee in accordance with previous correspondence that I understand was directed to them. This will help all of us.

We have a long list of witnesses to testify, and we would like to be able to conclude the hearing at an appropriate time and still give us an opportunity for questions and discussion of issues that may be raised.

If we could limit the presentations to 5 minutes, that would be helpful.

Our first witness is Jo Ann Smith, who is president of the National Cattlemen's Association. She is accompanied by Don Butler, president-elect and chairman of the Farm Bill Task Force of the National Cattlemen's Association.

If you would both come forward, please.

STATEMENT OF JO ANN SMITH, PRESIDENT, NATIONAL CATTLEMEN'S ASSOCIATION, ACCOMPANIED BY DON BUTLER, PRESIDENT-ELECT AND CHAIRMAN, FARM BILL TASK FORCE

Ms. **Smith**. Mr. Chairman, I want to thank you for this opportunity to appear before this committee on behalf of the National Cattlemen's Association.[1] I am Jo Ann Smith, and I currently serve as president of the National Cattlemen's Association. With me is Don Butler, president-elect.

The members of NCA have a strong interest in the farm bill that you will be considering over the next few months. Prior to 1982, cattlemen stayed at arm's length of the whole process.

However, the Payment-in-Kind Program and the Dairy Diversion Program demonstrated to us that we cannot afford to stand by. Our industry is dramatically affected by the provisions of this bill.

I want to thank you for recognizing the importance of the livestock sector in scheduling this hearing for livestock and poultry input to the committee.

Cattle account for almost 20 percent of all income for agriculture, and are the largest single agricultural commodity. Further, livestock, poultry, and dairy producers use over half of U.S. feed grain production. As the largest customers for the U.S. feed grain producers, we expect that our input into the development of the feed grain programs will-given due consideration.

It is incumbent upon the Congress to define the goals of the 1985 farm bill before a new bill is enacted. Is it the purpose of a farm bill to assure income stability for agricultural producers through income transfers like deficiency payments? If it is, then why are 1 million beef cattle producers in this country not included in the program.

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[1] See p. 411 for the prepared statement of Ms. Smith.

Is it the purpose of the farm bill to assure commodity price stability? If so, why are beef, pork, and poultry not included?

Is it the purpose of the farm bill to supply an abundant supply of food to U.S. consumers at a cheap price? If so, how much will the Government spend in supporting agriculture to assure that supply of food?

Is the purpose of the farm bill to utilize agricultural products as strategic bargaining chips in international affairs? If so, will the Government ease the cost to producers for such strategic actions?

Congress must determine the goals, taking into account the views of all groups with a stake in the food and agricultural sectors. Only Congress can rise above the individual interests of special interest groups to develop a policy of change for American agriculture.

We hope that the Members of the Senate and House will recognize this opportunity and set a new course for agriculture. You have outlined in S. 616, in introducing the farm bill, and we agree, that a "public utility" agricultural policy cannot possibly work. We must recognize agriculture as part of a very large international economy. A public utility policy for agriculture would kill the entrepreneurial spirit that has made American agriculture the most productive in the world.

We further agree with you that change must begin now. There will be no right time to start moving toward a market-oriented agriculture, and we no longer can delay that move, or else we prolong the problems we currently face. The precarious financial condition of many agricultural producers should influence how rapidly we make this transition, but should not deter us from moving in that direction that we must go—toward allowing the market to determine not only the prices, but production decisions.

At our recent convention, NCA adopted a policy of four major points: No. 1, to achieve a reduction in Federal spending objectives. Our members say that Government could do more for agriculture by reducing Federal spending than through any commodity or farm program. In order for agriculture to get back on the track, the Federal Government must reduce spending.

No. 2 was to minimize direct Federal involvement in agriculture and begin a phaseout of commodity programs. Government programs influence, change, and distort the price and supply of beef cattle. We want those adverse effects eliminated, and the best way to do it is to phase out the program over time and let the markets determine the price and supply of agricultural commodities.

No. 3 is to reserve the right of individual choice in the management of land, water, and other resources. A very deeply held principle for cattle producers is that the right of choice in the use of resources must be preeminent. The market will exercise sufficient control over the use of these resources, while Government programs may encourage inappropriate use of resources.

No. 4 is to provide an opportunity to compete in foreign markets. We must continue to develop a strong export market for all agricultural products, including value-added products such as beef. U.S. trade policy must be integrated with domestic policy, and must also be strong enough to overcome barriers to exports of our products.

There are areas of the present policy we totally disagree with, and some suggest we may see some of this again—one being the Dairy Diversion Program. This is certainly an example of how one commodity can adversely affect other commodities. Paying dairy farmers to reduce production effectively amounts to a subsidy to slaughter cattle.

We applaud the introduction of S. 616, and we intend to have a statement before this group by April 10 of our assessment. We have asked the Secretary of Agriculture for an economic impact analysis of the effect of the administration's farm bill. We would ask that the same type of analysis be done of S. 616, particularly as it affects the cattle industry. We would also ask this committee to consider including language in the farm bill that would give borrowers of agricultural commodities clear title.

Mr. Chairman, we urge you and the members of this committee to proceed carefully, but as expeditiously as possible, to achieve a new direction for American agriculture. The time for beginning this change for agriculture is now. We applaud the leadership of this committee that has shown us the direction that you would choose to go, and we thank you for the opportunity to present our views.

Senator COCHRAN. Thank you very much, Ms. Smith, for your testimony.

I have been asked by the chairman of the committee, Senator Helms, to ask for him a few questions of each witness who testifies this morning.

The first question is: Given current livestock and poultry numbers and the capacity to expand production, do you have any estimates as to what feed price level would be likely to expand livestock and poultry production significantly?

Mr. BUTLER. I do not think, really, on the dollar amount, we would have. It has been our feeling that cheap feed produces cheap cattle.

Senator COCHRAN. Do high interest rates make it less likely that livestock production would expand under lower feed prices?

Mr. BUTLER. Not necessarily. Again, we would have overproduction, and the interest rate related to the deficit has been our biggest problem.

Senator COCHRAN. The other question is: It appears that we have three basic policy options—first, continue current programs, which means spending $15 billion per year, accumulating surpluses, and probably instituting a PIK Program every third or fourth year; second, move to mandatory production controls and high price supports, which means abandoning the export market and idling 30 to 40 percent of our agricultural capacity; or third, move toward export-oriented policies that will allow our producers to gain back lost markets and increase export earnings through competitive commodity pricing and strong Government export programs. Of these three general options, which do you prefer, and why?

Mr. BUTLER. We would prefer the third option.

Senator COCHRAN. It sounds a lot like my questionnaire that I used to send out as a Congressman; the answer is obvious. [Laughter.]

I wonder, in your work, whether or not you have come to any conclusion about whether you will support the administration's bill, or do you at this point prefer the S. 616 that has been introduced by Senator Helms—or, do you think you will have a separate proposal to make for the committee's consideration, as far as an overall farm bill is concerned?

Ms. SMITH. At this particular time, NCA would like to review all of the bills that are presented, and particularly those two, and we will definitely have a position.

Senator COCHRAN. As I understand your testimony, you support generally the concept and theories underlying those two pieces of legislation.

Ms. SMITH. That is correct. There are areas in there that we do not concur with, and we would like to see some redirection.

Senator COCHRAN. Could you give us any indication what those are at this point?

Ms. SMITH. Yes. We are concerned—we feel that all Federal programs should be cut; we think that is absolutely necessary. Some of the cuts that are proposed, particularly in the administration's bill, as relative to some things in USDA, we would particularly like to make some suggestions as to redirection of those cuts.

Senator COCHRAN. Senator Heflin.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator HEFLIN. From testimony of a number of different witnesses, I am led to feel that a substantial, if not one of the most important, aspects of a farm bill will be the efforts to try to reduce foreign competition, illegal foreign competition, and to give cattle producers and other commodities a chance to compete fairly in a foreign market or otherwise to compete in a foreign market. I know that the beef industry has had its problems, particularly in Japan and other places.

I wonder maybe if you might want to direct some testimony here—of course, we do not have a great deal of time with a lot of witnesses—perhaps to follow it up with a letter to us, in which you would outline the details of a section of the farm bill dealing with foreign competition, and any mechanisms you might suggest, to correlate activities between the Department of Agriculture, the Trade Ambassador, or other agencies in the future, as trade agreements are negotiated—any aspect of foreign competition. To me, this goes across the board. If we are going to move—and I do not think anyone on the full committee or in the Senate would object at all—toward a market-oriented farm policy, we must increase exports, I think it is rather clear from the Secretary of Agriculture's testimony that if we move toward a market oriented, the increased market is going to have to come from export. There are, of course, some exceptions to that. We can promote domestic usage of many farm products, including beef and other commodities.

But to me, we have got to look at this area of foreign competition. We find imports subsidies by foreign countries illegal. We have seen new rivals emerging on the scene. I do not know whether China has started raising cattle for export; in another year or two, they are going to be raising everything else for export.

I would just like for you to maybe generally address this subject, and later follow it up with a copy to me, and to the chairman, of your thoughts, I think it ought to be in some detail as to what we can do relative to the issue of competition designed to try to increase markets.

Mr. **Butler**. Thank you very much, Mr. Chairman, and Senator.

We would be more than happy to present to you—and we will do it as rapidly as possible—to present a statement and perhaps, details, as to how we think we can open up the foreign market and what steps would need to be taken to phase into the market-oriented situation that we are requesting, and still to move products into the foreign areas. Yes, we do have a tremendous amount of competition, and I can't, right off the top of my head, tell you in detail, I think, what you are requesting. We would appreciate a little time to prepare that document, and we would be more than happy to do so.

Senator **Cochran**. Thank you for that. We hope you can respond. That would be helpful.

Any other questions, Senator Heflin?

Senator **Heflin**. That is all I have.

Senator **Cochran**. Senator Andrews.

STATEMENT OF HON. MARK ANDREWS, A U.S. SENATOR FROM NORTH DAKOTA

Senator **Andrews**. Thank you, Mr. Chairman.

I would like to follow up a bit on the question raised by the Chairman. Ms. Smith, I am probably one of the few members of the Senate who has 600 head of my own four-legged losers back home. I am constantly concerned about the export opportunities that we are losing. We get to be more and more like a "banana republic." We do not ship flour. We do not ship, in the case of our sunflowers, the sunflower oil. We are only able to ship the raw sunflowers. Mexico insists on processing them themselves. But it would be a lot more cost-effective if we shipped our beef to some of these markets in the world.

What suggestions do you have to penetrate export market that is out there? Granted, we have to do away with trade barriers other countries put in our face. That is problem No. 1. But I cannot help remembering 12 or 14 years ago, when we had what were called export enhancement policies—export subsidies would probably be an uglier but more descriptive word—in place. Those subsidies were about 30 cents a bushel on wheat, I remember, and facilitated the greatest export movement we have ever had in the history of this country. And it was dollar effective. It cost us, as I recall from the GAO Report, some $270 million; yet, we made an income, the Federal Government made an income of $700 and some-odd million for a net profit of $500 million.

Could we do that with beef? Could we do that with pork? Should we do that with poultry?

But do you think we have support for that kind of old fashioned, yankee, "Let's go do it, let's compete with them, and let's scrap like heck," in the market under the terms we need to use to do it, even though it might not be nice?

Ms. SMITH. Certainly, the National Cattlemen's Association would like to see—we want to be in that market. You said trade barriers are the thing; the policies are what is preventing this.

The beef product that we have today, certainly, we would like to be in that market, and if we did not have restrictions, we could be there.

Senator ANDREWS. Could you support, or would you support even some type of, export subsidy in order to allow us to compete and penetrate those artificial barriers put by other governments?

You know, American ranchers, American farmers can compete with farmers and ranchers anywhere in this world. We cannot compete against other governments. Now, we play by the rules, unfortunately if we fight fire with fire, then we are going to have to put in place some kind of Government subsidy to overcome the government fence that is put in front of our products by other countries.

Would the National Cattlemen's Association favor that kind of approach?

Ms. SMITH. Yes.

Mr. ANDREWS. Thank you, Mr. Chairman.

[The following was subsequently received by the committee in response to written questions from Senator Helms:]

NATIONAL CATTLEMEN'S ASSOCIATION,
Washington, DC, May 6, 1985.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition and Forestry,
U.S. Senate, Washington, DC.

DEAR SENATOR HELMS: NCA President, Jo Ann Smith, asked me to respond to your questions on the "cheap corn/cheap livestock" concept. Underlying our use of this concept is our belief that for any sector of agriculture to be financially healthy we must have a healthy agricultural economy in general. One sector cannot remain consistently profitable when other sectors are facing financial trouble.

In answer to your questions, let me offer the following:

Question 1. Is the old "cheap feed—cheap livestock" saying still true today given what appear to be new livestock cycles and high real interest rates?

Answer. Feed costs have been relatively less important in the last 5 years than previously, because other factors that influence livestock production have been volatile. For example, interest rates, energy costs, inflation, structural changes in the banking industry, etc., all have been very important factors in livestock production decisionmaking the past few years. Further, changing consumer demand for protein has affected livestock production and price relationships considerably.

If these other factors are stable over an extended period of time, then cheap feed can eventually lead to increased livestock production and lower livestock prices. The increase may come from other meat and poultry products, with the resulting larger supplies leading to lower meat prices across the board, including beef.

Question 2. If the saying is true, at what feed price or feed/livestock price ratio does the "cheap feed—cheap livestock" syndrome occur?

Answer. An approximate price or ratio of prices where cheap feed will lead to cheap livestock is difficult to predict. If we can predict interest, energy costs, credit, demand, etc., and if these factors are expected to remain stable over an extended period of time, then we might be able to predict the level of feedgrain prices that will lead to increased livestock and poultry production, and to lower livestock prices. However, these factors are still unsettled.

Further, this can happen at almost any feedgrain price, depending on prices of other factors. If interest costs are low, credit is readily available, consumer demand for meat is strong and energy costs are low, stable corn prices of $3.00 or more may eventually lead to cheaper livestock prices.

I thank you for this opportunity to expand upon these points on President Smith's behalf.

Sincerely,

JOHN W. ROSS,
Director, Tax, Finance and Farm Policy.

Senator COCHRAN. Senator Dixon, we are glad you are here. We just had a presentation from the National Cattlemen's Association president. Do you have any comments or questions of them? If so, you are recognized.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, I am pleased to be here today at the start of the Senate Agriculture Committee's series of hearings on the 1985 farm bill.

The issues surrounding the livestock and poultry industries affect not only our farmers, but also every consumer in this Nation.

I am looking forward to the testimony to be presented this morning. I am confident the witnesses will provide the committee with recommendations which will be of great assistance as we craft the 1985 farm bill.

Thank you, Mr. Chairman.

Senator COCHRAN. We thank you very much for being here and contributing to our hearing. Thank you very much.

Our next witness is Robert D. Josserand, president, Texas Cattle Feeders Association, from Amarillo, TX.

Mr. Josserand.

STATEMENT OF ROBERT D. JOSSERAND, PRESIDENT, TEXAS CATTLE FEEDERS ASSOCIATION, AMARILLO, TX

Mr. JOSSERAND. Mr. Chairman, my name is Robert Josserand, and I am president of the Texas Cattle Feeders Association, and a cattle feeder from Hereford, TX.

The Texas Cattle Feeders Association represents most of the cattle feeders in Texas, Oklahoma, and New Mexico, an area that feeds approximately 25 percent of all the fed cattle marketed in the United States.

As you are probably aware, the beef cattle sector is the largest sector of the agricultural industry, accounting for over 20 percent of the total cash receipts to agricultural producers. Through the years, cattlemen have generally opposed direct production controls and subsidies on beef and beef cattle. And it appears to us that cattlemen have fared better through the years than commodity producers that had more government involvement in their business.

In 1934, cattle were added to the list of commodities which were designated as "basic" in the Agricultural Adjustment Act of 1933. This brief period of direct Federal intervention to support cattle prices and cattle producers' income ended in 1936.

The influence of the Federal Government on livestock prices and producers' income has mostly been indirect in nature, through programs that affect the supply and prices of crops. Most economic studies agree that grain programs have raised the price of livestock feed, restricted total livestock production, and raised overall livestock prices.

Economists agree in general, but not in detail, on how higher feed prices have affected levels of production, prices and incomes in the livestock sector. In general, most studies of the grain programs show that such programs have tended to raise grain prices anywhere from 5 to 100 percent, depending upon the particular crop and time period.

Higher grain prices affect the livestock feeding sector in several ways. The most direct way, of course, is by raising the cost of animal feed. Since the cost of feed comprises approximately 75 percent of the variable costs of feeding, higher grain prices will have a significant impact on the profits of cattlemen.

The Texas Cattle Feeders Association supports the transition of American agriculture to a competitive market-oriented system where market prices for all commodities determine producers' decisions.

Before implementing any farm programs, Congress should be extremely careful that a program for one commodity does not adversely affect other agricultural commodities.

Two short-term, stopgap farm programs implemented in 1983 had an adverse effect on the beef industry. These were the Payment-in-Kind Program and the Paid Dairy Diversion Program. Following the announcement of PIK in January 1983, corn prices jumped from $2.95 per bushel to $3.31 per bushel in April—a 16-percent increase.

The Dairy Diversion Program is the best example of a government program which directly affects the cattle industry. The projection that up to 1 million dairy cows would come to slaughter in a 3-month period—even though it never happened—helped drive beef cow prices in the fall of 1983 to their lowest levels since 1978. Also, in September 1983, fed cattle prices dropped to $59.68, a 16-percent decline from spring prices; partially in response to anticipated heavy slaughter of dairy cows. In essence, the program did not work every well. Only 12 percent of the Nation's milk producers signed up for the Dairy Diversion Program. During 1984, the nation's dairy herd decreased 2 percent while dairy replacement heifers increased 5 percent, suggesting future increases.

We believe that American agriculture needs to become more market-oriented, with market signals—not Government programs—determining the types and amounts of commodities that are produced. We urge and support the gradual transition of American agriculture to a market-oriented system where market prices for all commodities determine producer decisions.

As a side issue, I would like to mention that one credit-related issue that I think is important to American agriculture and particularly important to the livestock industry is the clear and free title for the buyer of mortgaged agricultural commodities. House bill 1591 was recently introduced in the House to eliminate the double payment problem. We would like to urge the Senate to also initiate a similar bill.

I thank you, Mr. Chairman.

Senator **Cochran**. Thank you very much, Mr. Josserand.

The beef cattle industry, while not supported directly by a farm program that would have an effect of setting prices, does depend to some extent on Federal support for research, animal health research, and forage research that we have tried to get the Department of Agriculture to emphasize in recent years.

I am assuming that your Association would continue to support the efforts of this Congress to allocate resources for those purposes. I am assuming that you would support that effort by the Federal Government in the future?

Mr. **Josserand**. Yes, sir; we certainly would.

Senator **Cochran**. To what extent do you think the government should provide income protection for any farmer? Is it your testimony that there should not be any support structure that would provide direct payments to agricultural producers in case of marketing disasters?

Mr. **Josserand**. I think our association position would be, Senator, that ultimately, we would like to see government completely out of the agricultural support business. I think we also realize that, realistically, that cannot be done overnight, and will take a transition period. So I assume from our association position that we would recommend to the Senate and to the Government that this be a gradual transition period, but ultimately, to get out of the business.

Senator **Cochran**. Senator Heflin.

Senator **Heflin**. You mentioned this credit bill. Give me a little more information on that.

Mr. **Josserand**. Senator, agricultural products are the only products at this point in time that do not have the protection of the financial industry that gives us the right to pay for a product one time and own the product. We at the present time are subject to credit limitations where we could buy grain, silage, cattle, and so forth, and pay for those, and if the person that we purchased those from did not in turn pay off the mortgage at his bank or PCA, or Farmers Home Administration, if he did not do so, we in turn could be subject to paying for the same products again.

Senator **Heflin**. You are talking about the Uniform Commercial Code?

Mr. **Josserand**. Yes, sir; we are the only people who do not have that protection at this point in time, and we simply say to everyone that that is unfair, that we should be the only people subjected to a double payment situation.

Senator **Heflin**. I have nothing further.

Senator **Cochran**. Senator Harkin.

Senator **Harkin**. Thank you, Mr. Chairman.

Mr. Josserand, you have said that you want to go to a competitive market-oriented system where market prices for all commodities determine producers' decisions. About 3 weeks ago, I checked the price of corn in Iowa. The central Iowa price of corn was $2.43 per bushel. On the Chicago Board, it was $2.73. The price in Rotterdam was $3.75, and the price of that same bushel of corn in France was $5.60.

What is the market price? [Laughter.]

Senator **HARKIN**. I am glad you are laughing.

Mr. **JOSSERAND**. Senator, I cannot answer that. I would simply say this to you, however, in representing the Texas Cattle Feeders, that we simply think that the American agricultural producer can compete with anybody in the world, given equal terminology and equal terms.

Senator **HARKIN**. Now, there, I agree absolutely, 1,000 percent, with you. But I do not make the laws affecting the governments of the European Community or of Argentina, or Brazil, or Australia, or Canada, you see. And so, fine, they can compete. But if those governments are going to enact programs and policies and tariffs and other things that skew the marketplace, and if we continue to just leave ourselves wide open, regardless of what the rest of the world does, we are just digging our own graves. Obviously, that is what we would like to have. But since we do not dictate to the rest of the world in terms of their governmental policies we have to be realistic about that so-called marketplace out there.

That is just my first comment.

Mr. **JOSSERAND**. I agree with you, Senator.

Senator **HARKIN**. Second, on "Congress should be extremely careful that a program for one commodity does not adversely affect other agricultural commodities." Well, in my 10 years here, that always happens. There is always some kind of residual effect one place or another, and so you are right, we do have to be very careful.

Then, you talk about the PIK Program and how it affected cattle feeding. Well, I have seen what has happened to cattle feeding in my State. We have lost a basic industry in the State of Iowa. We have lost somewhere in the neighborhood, if my memory serves me right—and someone from the Cattlemen's Association can correct me—of something like 11,000 jobs in the State of Iowa. In the last 3 or 4 years because of the loss of cattle feeding. There are a lot of reasons for that—tax policy, uncertain policies in agriculture, which I think is one of the foremost reasons.

Of course, a cattle feeder, just like a pork producer, theoretically would like to see fairly low grain prices, but as my cattle feeders, and my pork producers have always told me, invariably, cheap grain leads to cheap meat, cheep beef, cheap pork.

So you really do not want it too cheap. If you do it too cheap, everybody is going to get into it, and it is going to drive the price down. We have seen that happen time and time again. If you drive the price of grain down, more people walk that grain to market.

We have to strike some kind of balance. And it seems to me the most important thing is not so much how high the price of grain is—within reasonable limits—but whether or not it is fair, or whether or not you have a fairly stable program over a 3-, 4-, 5-year period of time so that the cattle feeder knows what it's going to be in the next 18 months, so they can plan ahead. So it seems to me that if we could have a program that was 3 or 4 years, 5 years, looking down the road, and a beef producer could say, "Here is basically what it is going to be," then they could make those choices.

Even if the price is high, they could still make certain choices about what they are going to do. So it seems to me that the biggest problem for cattle feeders is the uncertainty of what that price is going to be. Look what happened to the PIK Program: The price of grain in the cellar one year, then, high the next.

I just wonder if you have any response to that observation?

Mr. **JOSSERAND**. Senator, I certainly agree with you, and I would probably be out of line to comment to you on Iowa, but I think truly that the cattle feeding industry in your State has declined, and one of the primary reasons has been the uncertainty of the farm program, and I certainly would concur with that.

Senator **HARKIN**. That is right. I think, tax policy, too, but I think this whole uncertainty of what the policy is going to be the next year or 2 years.

Well, that is basically it. I just wanted to engage you in a little conversation on that.

Mr. **JOSSERAND**. You know, we in the cattle feeding business are basically a service industry, and we are not saying to the American agriculture producer or to you or to anyone else that we need particularly cheap grain, because cheap grain does mean cheap cow prices. We are simply saying to you let's let the market dictate what that grain price is. And whatever it is, we are willing to pay, because we are basically passing those costs along.

Senator **HARKIN**. And—I am sorry to keep going on; excuse me, Mr. Chairman—but what is that market price? You see, that is it. You say, let the market determine it, but I do not know that anyone can tell me what that market is out there.

Mr. **JOSSERAND**. And I certainly cannot, sir.

Senator **HARKIN**. No, I cannot, either.

Thank you.

Thank you, Mr. Chairman.

Senator **COCHRAN**. Senator Leahy.

Senator **LEAHY**. Mr. Chairman, I have a prepared statement that I ask be made a part of the record.[1] I was struck by the same thing you were, however, that the testimony here today is somewhat different than the things we hear from agricultural groups looking for support prices and other things—and you are not.

Mr. **JOSSERAND**. No, sir, we are not.

Senator **LEAHY**. I find it interesting. The State of Vermont is not a major beef-producing State, but we grow a lot of poultry. I was interested in hearing about poultry production, but I will not interfere with others here who have a far greater interest in these areas for their own States. So, I will leave my time for you, Mr. Chairman, and the others.

Senator **COCHRAN**. Those chickens have pretty thick feathers, I bet.

Senator **LEAHY**. They do. I should note for the record that the chairman was kind enough to come up and hold a hearing in Vermont earlier this week. It was 20 degrees above zero when he arrived. Now, that may sound bad, but the last time, he was there to chair a hearing, it was 50 degrees colder; it was 30 degrees below zero, and the wind chill factor brought it down to 40 degrees. So he felt he was arriving in the warm climate this time.

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[1] See p. 410 for the prepared statement of Senator Leahy.

Senator COCHRAN. It does not take the chickens long to grow up and get out of there.

Senator LEAHY. We eat them early. In fact, most chickens enjoy being fried up in Vermont. [Laughter.]

Senator HEFLIN. I might say that a good Southerner who is a Democrat would have more sense than to go. [Laughter.]

Senator LEAHY. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator.

Senator Melcher.

Senator MELCHER. I just walked in as you were responding to the questions of Senator Harkin, so I may be asking you about something akin to what he asked you earlier, and I will not impose on you to that extent if it is repetition.

I have a great deal of respect for the organization you represent. It represents 25 percent of all fed cattle.

Mr. JOSSERAND. Yes, sir.

Senator MELCHER. Some of these are conditioned cattle, not fed cattle; is that right?

Mr. JOSSERAND. The 25 percent, Senator, applies to the fed cattle that are marketed in the United States.

Senator MELCHER. Slaughtered cattle?

Mr. JOSSERAND. Yes, sir.

Senator MELCHER. Many, including myself, feel that cheap grain means cheap cattle, cheap pork, cheap poultry—they all go together. Do you subscribe to that?

Mr. JOSSERAND. Yes, sir, we certainly do.

Senator MELCHER. Whatever you are saying in here about higher grain prices affect the livestock feeding sector in several ways, you are saying, in effect, that cheap grain does mean cheap cattle?

Mr. JOSSERAND. Yes, sir. I think the Senator touched on it a minute ago. You know, basically, we in the industry are simply saying to you give us a game plan, and we will live buy it, but we need to know what that game plan is several years down the road.

Senator MELCHER. In effect, what you really need is stable grain prices.

Mr. JOSSERAND. Yes, sir.

Senator MELCHER. Why did this market drop off so quickly on the fed cattle? I was not even aware of it until somebody pointed it out to me last night. What about the last $4 or $5 drop?

Mr. JOSSERAND. Yes, sir. We have seen that kind of a drop, and I think we have basically seen it because of an oversupply of our product. We knew it was coming.

Senator MELCHER. You anticipated it?

Mr. JOSSERAND. Yes, sir.

Senator MELCHER. The cattle packers did not?

Mr. JOSSERAND. Yes, sir, they did to a certain extent.

Senator MELCHER. They will have to read it more carefully. I did not expect it.

Mr. JOSSERAND. I do not know that I did personally, but I think the industry expected it, sir.

Senator MELCHER. Thank you.

Senator HEFLIN. Mr. Chairman.

Senator COCHRAN. Senator Heflin.

Senator HEFLIN. Mr. Chairman, let me put a question to Ms. Smith of the National Cattlemen's Association and also to you, Mr. Josserand, and your association. Perhaps it might be wise to any of the livestock, poultry, and other groups, too. There are proposed a number of tax simplification bills—and this, of course, is not a taxwriting committee—but in my judgment, that could have a tremendous effect on farming, and in particular, cattlemen and other types of producers of livestock. I think we ought to have the National Cattlemen's Association, and other livestock association, present an evaluation of what the tax simplification proposals might do to your industry—whether it helps, hurts, or what it might do. There are questions of losses of deductions; there is also the question of loss in some instances of capital gains treatment, which could put a different posture over the overall financial future of various agriculture and agriculture-related businesses and industries.

I just think maybe as we look at this farm bill that it might be helpful if we have in mind some of the possible changes and what their effects might be.

I made a speech to a cattle group. I was trying to make an evaluation of how the various Treasury report, the Kemp-Kasten, the Bradley-Gephardt bills would affect farming operations, and to my amazement, there had not been many farm organizations that had done any studies of the effects of the proposed tax simplification on them.

I think maybe as an Agriculture Committee, it would be helpful to us to know the consequences, and to bear those somewhat in mind as we approach it. I really anticipate—I may be wrong—but I anticipate that there will be adopted a tax simplification bill. The movement is for it. It is attractive, but at the same time, there are certain aspects of it that could cause some real problems. I think that this committee ought to be alerted as well as the taxwriting committees of Congress. So, if you and your associations could look at that and give us something in writing relative to it, I would appreciate it.

Mr. JOSSERAND. Senator, I think we would be very happy to, and I am sure that Jo Ann and the NCA staff would, also, because it is a concern to us. I think one of the concerns that we have as an association is the fact that we are not sure that Treasury is hearing from agriculture these days as far as tax simplification goes. So we would be very happy to furnish you that information.

Senator COCHRAN. Maybe it is because most farmers do not have any income, so they don't pay much tax.

Mr. JOSSERAND. Senator, I think two things. I think we are all in disarray as to really what we need, and so I think agriculture in general is not focusing on that.

Senator COCHRAN. That is a good point.

Senator Harkin.

Senator HARKIN. Thank you, Mr. Chairman.

I just want to underscore what my colleague, Senator Heflin, just said—and I apologize for having to leave early, but other commodity groups that will be testifying are here, I think what Senator Heflin said is wise counsel. We really ought to have from all of you your best thinking and analysis on these tax programs coming up, this tax simplification, because a lot of times—we do things, in an agricultural bill, and we find out that the Ways and Means or the Finance Committee has done something else that maybe negates what we have done. That is one point.

The second thing is that when you do this analysis, of the tax simplifications, think about it in terms of the broader context, too. In other words, there ought to be a portion of the tax bill that, if you look upon it just in terms of your own industry, you might say, "Well, this will have an adverse effect." But if you think about what effect it has overall, that may not be so adverse. I speak specifically of the investment tax credit. If you look at it from an individual farmer's standpoint, you might say, "Well, it is not too good to give up the investment tax credit." But if you look at it perhaps from a different angle, it might not be so onerous. That is why I am saying, look at it not only in terms of specifically how it might affect a cattle feeder or pork producer or whatever commodity, but how it might affect agriculture overall. That is the only thing I would add, Mr. Chairman.

Senator COCHRAN. Thank you, Senator.

Thank you, Mr. Josserand, for your testimony. We appreciate your being here.

Mr. JOSSERAND. Thank you, Senator.

[The following written questions from Senator Jesse Helms and the responses of Robert Josserand, president, Texas Cattle Feeders Association, follow:]

Question 1. Is the old "cheap feed—cheap livestock" saying still true today given what appears to be the new livestock cycles and high real interest rates?

Answer. The old adage that cheap feed eventually results in cheap livestock is not as applicable today as it once was. The theory would not hold true in the short-run, although it might be more applicable in the long-run.

Under current economic situations, other factors such as high real interest rates have become more important than they once were in considering the economics of feeding cattle.

Cheap feed results from excessive supplies, low demand or some combination of the two. Prior to the advent of commercial cattle feeding, most cattle were fattened by farmer-feeders who grew their own feed. When excessive supplies and low prices occurred, the grain had to be fed up, which ultimately resulted in an over-supply of beef, eventually leading to cheaper cattle prices.

Today, 81.2% of cattle fed for slaugther are fed in large feedlots (over 1,000 head capacity) which are not pressured to market cheap grain through livestock, as farmer-feeders sometimes were.

Obviously, cheap grain will reduce the cost of gain and tend to attract additional cattle feeders. However, as I mentioned previously, other factors such as the cost of the feeder steer, high interest rates, etc. will have impact on the profitability of feeding cattle.

Question 2. If the old saying is true, at what feed price or feed/livestock price ratio does the "cheap feed—cheap livestock" syndrome occur?

Answer. In light of changing economic conditions and the structure of the industry, I cannot quote a specific feed/livestock price ratio. As previously discussed, it would not be as applicable as in the past.

Question 3. You made the statement that the cattle feeding business is basically a service industry and that you pass feed costs along. Would you elaborate on this point and explain how the cattle feeder is able to pass along costs?

Answer. My statement about the "service industry" was in reference to custom feedyards, which feed cattle on a cost-plus basis for customers.

Typically, the feedyard will charge the customer the actual cost of grain, plus a markup for processing, feeding, overhead and profit.

The customers of our custom feedyards are basically in the same position as farmer-feeders in the Midwest—they are basically price takers and cannot pass on the cost of feed to the packer, the retailer or the consumer.

Question 4. Are you talking about custom feedyards or traditional sole proprietor operations?

Answer. As I mentioned above, my comments were pertaining to custom feedyards.

Senator COCHRAN. Our next witness is James Wright Jackson, who is a member of the board of the National Pork Producers Council. He is from Dunn, NC.

Mr. Jackson, welcome to the Agriculture Committee.

STATEMENT OF JAMES WRIGHT JACKSON, MEMBER, BOARD OF DIRECTORS, NATIONAL PORK PRODUCERS COUNCIL, DUNN, NC

Mr. JACKSON. Thank you, Mr. Chairman.[1]

Mr. Chairman and members of the committee, we appreciate this opportunity to share with you our position on the 1985 farm bill.

My name is James Wright Jackson. I am a member of that National Pork Producers, and the State from which I come is North Carolina.

We operate a family farm, my three sons and I, and we feed mostly pigs, swine, a few cattle; we raise cotton, tobacco.

The National Pork Producers Council, which I represent today, has the largest commodity organization in the Nation, with an identified membership of 315,000 farm families.

Our organization wants to focus your attention upon the economic hardships now being suffered by the family farm system and to emphasize to you the importance of maintaining that system. American agriculture has a major problem facing it today that far transcends the immediate, but serious, cash flow difficulties many producers are experiencing. It is the loss of confidence in agriculture's future.

The long-range consequences of that, represented by steadily deteriorating farmland values, is threatening to slide into a full-scale farm depression—which I have heard my dad talk about many times. If that occurs, no segment of this Nation's economy will escape the resulting economic fallout of such a depression.

The National Pork Producers Council's farm policy recommendations are outlined in detail in the written portion of our testimony which, with your permission, we will submit for the official committee record. Our recommendations focus on the needs of the 315,000 farm families and pork producers that maintain hog operations in the face of high interest rates, unfairly subsidized foreign competition, and, sometimes, conflicting governmental advice to consumers on diet and nutrition.

We have always believe and continue to believe that, despite 50 years of farm legislation that has injected the Federal Government into the farm marketplace as its chief regulator, farmers are likely to be more effective, more productive, more competitive, and ultimately more profitable when we can just be left alone, without artificial price floors or artificial production controls.

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[1] See p. 414 for the prepared statement of Mr. Jackson.

The National Pork Producers Council does not come before this committee today to promote any new or revised commodity programs that would call on the Government to help enhance the income of pork producers. We have not done that for the past 50 years, and neither shall we do it today.

The National Pork Producers Council is not an advocate of increased Government intervention or regulation in agriculture. We are concerned with minimizing the adverse impact of Government policies on our industry and all of agriculture, and of encouraging the unfettered interplay of supply and demand as the factors that should ultimately determine profit and loss.

To put it simply, Mr. Chairman, the Government that governs best on behalf of pork producers and our fellow producers and their profitability is the Government that governs least, and above all, spends less.

Our organization supports the most free farm marketplace possible, but we recognize that it is unrealistic to expect today or this year that these support programs will just vanish overnight. We think that would be wrong. We support a reasonable transition that will move the present programs steadily in the direction of the competitive marketplace.

In our detailed testimony, as we discuss the merits of a free market system, the ultimate withdrawal of Government farm supports, we are aware that timing becomes the most critical factor for our fellow producers, many of whom have become financially dependent on some of these Federal programs.

Mr. Chairman, the National Pork Producers Council is pleased to see that the farm bill Senator Helms has recently proposed includes timing and implementation provisions that would moderate any precipitous changes in farm programs. He recognizes, as does the National Pork Producers Council, that agriculture must have sufficient time to adjust and adapt to the new competitive world economy in which we find ourselves.

There is another important element that must be addressed simultaneously. Our Government must face up to the reality of the world marketplace as well, and begin insisting that its trading partners recognize that free trade is not just a one-way street, and if it is going to be free, it has got to be fair.

It will take some time and patience, but with the careful deliberation and encouragement of this committee and your counterparts in the House, we are confident that a reasonable solution to the present dilemma will be found that will help reestablish American agriculture as a real competitor in world markets.

Mr. Chairman, we thank you for the opportunity to be heard on behalf of the Nation's pork producers and to permit us to submit for the committee record our thoughts on the 1985 farm bill.

Senator COCHRAN. Thank you, Mr. Jackson. That is an excellent statement, and we will include in the record of the hearing the entire written statment which you had prepared for this hearing. We thank you for summarizing your comments; I think you did it in an excellent manner.

I gather from your presentation that the National Pork Producers Council would prefer either the administration's proposed farm bill or Senator Helms' proposed farm bill instead of a continuation of the kind of farm support program that we have now. Is that correct?

Mr. Jackson. Yes, sir.

Senator Cochran. As a cotton producer, how do you think that would sit with your fellow cotton farmers back home?

Mr. Jackson. The cotton program, Mr. Chairman, is probably one of the better programs. But, you know, we cannot help but infringe on some of our fellow producers because we are affected in so many ways when the overlap comes. We grow some cotton, we grow some tobacco, we grow some hogs, and when we affect the price of grain, we affect the price of the hogs. But feeding or maintaining about 3,000 head of hogs from feed on our farm, most times, we have found that, really, the selling price is not the deal. The thing we are talking about is price. And we can care less whether hogs are 36 cents or whether they are 56 cents, as long as there is a profit margin. So the price of ingredient and the ability to sell, the ability to market, is the question.

Senator Cochran. That is an excellent point.

I think one of the key challenges we face this year is doing something effective to control the Federal deficit. I heard that a panel of economists testified before our Budget Committee and the Finance Committee early in this session of Congress, that if we could put in place a plan for deficit reduction that would bring us down to a point where we did have a balanced budget by 1990, that interest rates would immediately drop by 3 percentage points. What impact, as a practical matter, would a drop in interest rates do in terms of improving profitability in your operation or in the operation of those member families that are represented by the National Pork Producers Council?

Mr. Jackson. Well, Mr. Chairman, if we could have a lower interest rate, and at the same time maintain land values, the collateral that is used by the farmers in our part of the country is changing, depending when you go and ask for a loan, because they are adjusting the value of the property and the real estate all the time. And we have a few people who cannot get a loan because of that.

Surely, we could operate more efficiently with cheaper interest rates. Probaby the thing that would help us more than anything else is increasing our exports. We really need to work on that.

Senator Cochran. Senator Heflin.

Senator Heflin. Mr. Jackson, I tried to review your statement, and it is a very fine statement. I am rather surprised to see this statement that says, "While overseas market for pork appears to be limited at present to an amount that fluctuates between 2 and 3 percent of our annual production." In other words, is only 2 to 3 percent of annual production of pork sold in export markets?

Mr. Jackson. That is about the net, sir.

Senator Heflin. Compared to other agricultural commodities, pork is really much lower than much of the rest of it. How do we account for this low export sale of pork?

Mr. Jackson. Sir, we have a couple of things. One of them is the value of the dollar. People in other parts of the world——

Senator Heflin. Well, all the other commodities have that, too.

Mr. Jackson. Yes, sir. But some of our competitors have processes they use so they can guarantee that pork is trichina free, other problems with duties. So this is an area that we really need to explore.

Now, all the reasons why we have not sold more pork to the world, I cannot answer, but I think I can probably get the answer for you.

Senator HEFLIN. Well, this would be an interesting aspect to me. I think one of the things that, as we hope to move toward a market orientation—and there are problems of transition, but I think we all agree we ought to move—it has got to be done in export sales. That is clear, I think, from even the Secretary of Agriculture's comments. I think we are going to have to spend some time on export problems, unfair competition, illegal barriers, and other things involved. Of course, in addition to this, you have the problem of foreign pork coming into this country. I know, I joined with a number of other Senators in trying to get the President in his recent visit to Canada to bring up the subject of pork coming into this country, which causes a lot of problem to our domestic market.

Would you care to comment on these problems?

Mr. JACKSON. Do you mean on the import of pork?

Senator HEFLIN. Yes, particularly the Canadian pork that is coming in.

Mr. JACKSON. Yes, sir, it is a problem. We are importing more than we are exporting. Our office in Des Moines has pork producers that file with the Commerce Department for duties, and we are looking for a ruling now at any time, for duties to be put on this incoming pork. What that will be, we do not know, but we know that we can produce pork as efficiently as anyone in the world can, or maybe more than most. But when you have a country that is subsidizing, whatever, at 5 or 6 cents a pound, and then you have provinces within that same nation that are subsidizing up to $18 per head, and this, the American farmers, whether he is in Iowa or whether he is in North Carolina, cannot compete with. I think we have a statement in there that addresses that, that we believe in free trade, but it has got to be fair, and this is not fair.

Senator HEFLIN. I also noted in your testimony that you say that:

> We feel it is imperative that Congress establish a mechanism for the coordination of messages the government sends to the consuming public about the nutritional contribution of animal-based products and ensure that such advice is derived from sound scientific research. Government messages to consumers must not pit one government agency against another.

In other words, I suppose you have matters in which there have been some questions relative to bacon, nitrites, and other types of things in this regard, as to whether it is based upon sound scientific research or not. Could you elaborate a little bit on what type of mechanism you propose?

Mr. JACKSON. Well, it will probably be, Senator, very little elaboration, but we just want to be treated fairly. We do not want to be spelled out as a bad product with a bad image, when there are other processed products that have the same ingredients in them as in processed meat.

We would just hope the different agencies would get together before they come out with these recommendations, and that they would treat the commodities fairly and treat us alike.

Senator HEFLIN. I also note that you raise the issue of the government purchases of commodities on the specific programs for needy families, elderly, schoolchildren, charitable institutions, and daycare programs, as to the fact that you contend that pork has been unfairly treated and in effect discriminated in that relationship.

Do you have any suggestions as to what could be done relative to improvements relative to those programs, to that purchasing policy?

Mr. JACKSON. Well, Senator, here again, we are addressing discrimination. We would hope that we could have a more equal and fair share of the market. I am sure that our fellow producers who produce beef are probably pleased with the percentage of the market they receive—and chicken, too—and our State is very much involved in poultry, and probably if not No. 1, almost No. 1, in turkey production and we have a very vital part of the meat industry there. But we would just hope that we could get maybe a more fair share. We just want a little fair shake, and do not want to take all the market away from our fellow producers, because we have neighbors who grow the other commodities.

Senator HEFLIN. I have only one more question. How do North Carolina chittlins compare to Alabama chittlins?

Mr. JACKSON. They are mighty good, sir. [Laughter.]

Senator COCHRAN. I don't know why you all brought that up.

Senator Melcher.

Senator MELCHER. Mr. Jackson, you say that you do not care if the hogs are selling at $36 or $56, just so there is a margin of profit. What are they selling at now?

Mr. JACKSON. It was 43 cents this morning, sir.

Senator MELCHER. That is the average?

Mr. JACKSON. Yes, sir—about 5 percent below what we feel we can break even at.

Senator MELCHER. You need about 45 cents to 56 cents to break even?

Mr. JACKSON. Yes, sir.

Senator MELCHER. I see you devoted about a fourth of your statement, two pages out of the eight, to the dairy program. You evidently feel quite strong about the Dairy Program. I assume that the rest of the pork producers do as well?

Mr. JACKSON. Well, Senator, this statement comes out of our Governmental Subcommittee Task Force of the National Pork Producers, which is represented by 38 States.

Senator MELCHER. We do have pork producers in Montana, and we are rather pleased that perhaps they are on a little bit of an increase.

Mr. JACKSON. I am sure you do. I know the director from Montana.

Senator MELCHER. I my case we have grain, a little bit of dairy, pork, a whole lot of cattle—I find myself wondering when we are ever going to be all together so we get enough recognition for what agriculture truly needs in an American agriculture farm bill. I can sympathize with every point you make.

But I know in the final analysis, that if we are going to get anything that really moves in the right direction and does something for American agriculture, we are going to have to be together on it.

Perhaps we have not gotten what we should have had over the past 25 years simply because we really have not been able to cinch up a good, solid agriculture coalition that holds together.

I have long learned that if I want to find out something about what it takes to raise pigs, I had better go to somebody who does it, and the same goes for grain, and the same goes to dairy and cattle and all the rest.

What would grain have to cost if you were going to make a profit at $36?

Mr. JACKSON. Well, grain in our country would be probably 50 cents over Chicago, so $2.30—I am guessing now—per bushel.

Senator MELCHER. Then your profit at $36 would be adequate?

Mr. JACKSON. Not at $36, sir. I misunderstood your question. I would have to compute that.

Senator MELCHER. Would it be fair to say that it would probably be profitable with grain about $1.25?

Mr. JACKSON. It could well be. It would depend on the price of protein.

Senator MELCHER. I dare say everybody that would be growing corn at $1.75 is going to be broke.

Mr. JACKSON. I think so.

Senator MELCHER. All right. So we do not want it down there.

Mr. JACKSON. That is right.

Senator MELCHER. Therefore, we should not set the loan rate there, or should we just disregard the loan rate?

Mr. JACKSON. Well, as in the statement, I think it has got to be a phased thing. I think we have got to slow it down slowly and let it take it easy. I think the point that is probably trying to be made is that we are going to lose some farmers, and this is bad. We do not want to lose any of our neighbors. We like them, we go to church with them, we love them. But we lost service stations when the gas war came along, when it went up, we lost auto dealers when something bad happened to them. I do not think that this Government, this administration, can save all the farmers.

I do not think that the break-even point on hogs is the same on our farms as it would be in Iowa, and I am sure that the grain farmers are the same way.

Senator MELCHER. If we could get the interest rate down 4 percent, the average corn farmers would save $2,000. But if we lower the price 75 cents, that would cost them $9,000. That would still be a net loss of $7,000. We have done one thing right for them; we got the interest rates down, but they are going to be $7,000 more in the whole than when we started.

If we are going to have cheap grain, we are going to have cheap pork, cheap beef, and cheap poultry.

Do you agree with that?

Mr. JACKSON. Yes, sir.

Senator COCHRAN. Senator McConnell, do you have any questions of the witness?

Senator McCONNELL. Of your 315,000 members, how many or what percentage grow their own feed?[1]

Mr. JACKSON. That would be a guess, but I would say probably 80 percent of them.

Senator McCONNELL. The cattle group, which I missed, but I understand they said that the Government needs to get out of the commodity pricing business. Is that essentially your position as well?

Mr. JACKSON. I am sorry, Senator, I did not hear the question.

Senator McCONNELL. The cattle group—I did not hear them, but I understand they said that the Government needs to get out of the commodity pricing business. Given the fact that so many of your members grow their own feed, do you agree with the cattle people? If so, why; and if not, why not?

Mr. JACKSON. Yes, sir; we do agree with it.

Senator McCONNELL. How do you all deal with two of your negative image factors. One is the commonly held notion that pork causes heart disease and problems of that sort, and the other negative rap that you get occasionally is that confinement operations are inhumane.

How do you posture yourselves and what do you say to those kinds of claims?

Mr. JACKSON. Well, Senator, it is a constant fight, day by day. We do not believe that—when we look at the nutritional figures on diet and so on that have been run, we know that a lot of the figures on cholesterol and the different parts of pork are really unfounded.

As far as the animal rights people are concerned, we know as producers, as feeders, that our pigs, as we call them, are more comfortable and more efficient and do a better job like they are now than when they were out in the field and out in the woods. If anybody has ever fed much livestock, they know that then they are in modified facilities and semienclosed facilities that their livelihood—they are more comfortable at night when it is cold, they are more comfortable when it is hot; they get a better feed conversion, and therefore, they get a cheaper product for the consumer, and this is the ultimate goal of the pork producers, we are a service group for the consumers of the Nation and the world.

Senator McCONNELL. There used to be, I am told, what is commonly referred to in agriculture as a "hog cycle;" in other words, the number of hogs varied considerably. But in the last 3 or 4 years, there has not been a "hog cycle." What happened, and is that good or bad that the total number on the market has not varied much.

Mr. JACKSON. Well, this could be very good for the producers and feeders, if we could find out where we could get a more constant price of grain, and it does not go from $1 to $1.50 a bushel in 12 months. If we knew, when we bred these sows and put these feeders in, what the price of grain was going to be—of course, we can play the futures market and play with it if we want to, but most of the farm people do not do that; most of them have the grain and feed it, or toward the end of the year, they will have to buy some. But it would help if we knew what are costs were going to be.

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[1] See p. 410 for the prepared statement of Senator McConnell.

Senator **McConnell**. So are you glad or not glad that the cycle appears not to have been there the last 3 or 4 years?

Mr. **Jackson**. Well, I do not know if I am glad or not, sir. We have broken even or lost money for 3½ out of the last 5 years as far as feed and hogs are concerned.

Senator **Melcher**. Do you have insurance?

Mr. **Jackson**. Yes, sir.

Senator **Cochran**. Senator Zorinsky.

Senator **Zorinsky**. Thank you, Mr. Chairman.

I have an opening statement, that I would like placed the record.[1]

Senator **Cochran**. Without objection, it is so ordered.

Senator **Zorinsky**. Mr. Jackson, evidently, from the comments you have made and from your statement, I would assume that you are supportive of a market-oriented approach.

Mr. **Jackson**. Yes, sir.

Senator **Zorinsky**. Do you feel there should be a period of transition?

Mr. **Jackson**. Senator, it is my personal opinion that it should be gradual over 4, 5, 6 years. I do not think if we took any part of a program and cut if off like July 1, it is going to hurt lots of people, whether it is poultry, dairy, or whatever, or commodities and grain. I think it has to be a gradual thing, and let the people producing have time to make adjustments.

Senator **Zorinsky**. Adjustments to the marketplace?

Mr. **Jackson**. Yes, sir.

Senator **Zorinsky**. In your opinion, how can we get the consumer, to assume more of the responsibility that currently the taxpayer is obligated to perform?

Mr. **Jackson**. Well, I do not know, sir, if I can answer that. It is probably the old, old story of each administration has wanted cheap food, and we try to sell this all the time, and it is going to take an education and telling a story. I do not think our consumers really realize how well off we are in this Nation where such a small percentage of our take-home dollar is spent at the grocery store. Even then, lots of it is not groceries; it is pantyhose, hair tonic, and whatever.

Senator **Zorinsky**. Do you think we have a two-tier situation? I see in your statement that you feel there definitely is a place for Government involvement in the international marketplace.

Mr. **Jackson**. Sir, I personally think that this is the place that the Government should be protecting agriculture. In other words, as long as the trade is free and fair, we can compete. But you and I know we cannot compete with the Bank of Argentina, or we spend all the money we spend in foreign countries on one thing or another, and then they buy their grain from Argentina, and wheat down there, at $14 or $16 per bushel, but they will sell it to people up here for $3.45 delivered, or $3.54, whatever it is.

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[1] See p. 410 for the prepared statement of Senator Zorinsky.

The American farmer, as efficient as we can be, cannot compete with that. You know, we call it different things—and I am taking too much time, Mr. Chairman—but we call it different things. We want to call part of it subsidy, we want to call part of it something else. But the difference in the price that a Toyota costs in Japan and what it costs in Washington, DC, is subsidy, in my opinion.

Senator ZORINSKY. Would you say that the problem we are having with Canada right now on the importation of hogs is an example of why the Federal Government should intervene?

Mr. JACKSON. Yes, sir.

Senator ZORINSKY. How do you produce cheap commodities so you can compete in the world marketplace, and who do you get to produce at below the cost of production in order to compete in the world marketplace? This is what the proposal that we have before us indicates, that we have got to have some $2 corn, so we can go out there and really compete in this free world marketplace.

I think it overlooks the fact that, after a while, there is not going to be anybody left to produce that $2 corn.

Mr. JACKSON. Well, that could well be a problem. I, personally, do not think that corn is going to have to come to $2. There could be a mechanism in here, with some things built in, with foreign trade, if it is going to be fair—if we are going to buy your stuff, you are going to have to buy ours. I know that is slapping somebody on the hand. But I think I have got enough faith in our people in Washington, I think they are strong enough to get these things done. Of course, if you want to know who is going to produce it, we farmers have been doing a pretty good job of producing it and losing money, so we will probably try to keep right on doing it. [Laughter.]

Senator ZORINSKY. It reminds me of the farmer who went into farming and made $1 million, but forgot to tell people he started with $2 million.

Mr. JACKSON. Yes, sir.

Senator ZORINSKY. I think you are really going to be thrilled with my farm bill.

Mr. JACKSON. It will be interesting to read it, sir. Thank you.

Senator ZORINSKY. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator.

Thank you, Mr. Jackson. You have been an excellent witness, and we appreciate your being here.

Mr. JACKSON. Thank you.

[The following written questions from Senator Jesse Helms and the responses of James Wright Jackson, National Pork Producers Council, follow:]

Question 1. Is the old "cheap feed—cheap livestock" saying still true today given what appear to be new livestock cycles and high real interest rates?

Answer. Price levels at which we operate today are different than in the past. However, expansion in hog production, causing cheap hog prices, is a certainty when corn and soybean oil meal are at low prices. Thus, the "cheap feed—cheap livestock" concept is still intact.

Question 2. If the saying is true, at what feed price or feed/livestock price ratio does the "cheap feed—cheap livestock" syndrome occur?

Answer. A hog/corn ratio [1] of 17.5 to 1 is where equilibrium is reached. If we drop below that ratio, hog production will be reduced, and conversely when we exceed that ratio, hog numbers will expand.

Senator COCHRAN. Our next witness is Ralph Rohner, who is professor of law at Catholic University of America, representing the American Meat Institute. He is accompanied by Manly Molpus, who is president of the American Meat Institute.

We welcome you to the committee. You may proceed.

STATEMENT OF C. MANLY MOLPUS, PRESIDENT, AMERICAN MEAT INSTITUTE, ACCOMPANIED BY RALPH J. ROHNER, PROFESSOR OF LAW, CATHOLIC UNIVERSITY OF AMERICA

Mr. MOLPUS. Thank you, Mr. Chairman.

The American Meat Institute appreciates the opportunity to testify before the committee. We have a policy statement on the 1985 farm bill, and we have furnished that to each member of the committee.

Today, however, we appear to call your attention to a special problem that affects agriculture and those who purchase agricultural commodities. Our industry last year purchased approximately $37 billion worth of livestock from American livestock producers.

Six months ago, this committee received testimony from a diverse group of food and agricultural organizations in support of congressional action to remedy the growing problem confronting all buyers of agricultural products. The American Meat Institute and other organizations, several of whom appear before you today, seek redress in correcting an inequity in current law that results in double payment for agricultural commodities. Purchasers of agricultural commodities face a most unique situation when they are placed in double jeopardy by current laws. No other segment of American business has such an unfair burden. There simply is no justification for a purchaser to pay twice.

Earlier this week, H.R. 1591 was introduced in the House to remove the current exemption from agricultural commodities as provided in the Uniform Commercial Code. In the last session of Congress, S. 2190 dealt constructively with this issue. The 1985 farm bill, we believe, provides an opportunity to cure this inequity.

I would like at this time to introduce Prof. Ralph Rohner, who will give some brief statements to substantiate the arguments that we believe are pertinent to this issue. Professor Rohner is serving as a special expert counsel to the American Meat Institute on this issue. He is a commercial law professor at the Catholic University Law School.

Senator COCHRAN. Professor Rohner, you may proceed.

Professor ROHNER. Thank you, Mr. Chairman.

We have a prepared statement, but I will submit that for the record and summarize, in order to stay within your time restrictions.[2]

Senator COCHRAN. We appreciate your doing that, and we will include your entire statement in full in the transcript of the hearing.

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[1] Hog/corn ratio equals Cwt. price of hogs/per bushel price of corn, (i.e.)—$48 cwt hogs/$3 corn equals 16/1 hog/corn ratio.

[2] See p. 418 for the prepared statement of Professor Rohner.

Professor **Rohner**. We are here this morning to register AMI's explicit and strong support for the Stenholm-Gunderson clear title bill Mr. Molpus just referred to that was introduced in the House of Representatives earlier this week. It would amend the farm bill to remedy a situation that is simply fundamentally unfair to purchasers of agricultural products.

I would note that a broad-based coalition of other organizations, including, I believe, all the organizations testifying this morning, also support that House bill.

The problem arises from provisions of the Uniform Commercial Code in all States save California. When a purchaser buys farm products from the producer under that commercial law doctrine, the security interest or lien of the producer's bank or other lender survives the sale, with the result that when the producer fails to account for the sale proceeds or otherwise defaults on the bank loan, the bank is able to pursue a claim against that buyer, and as Mr. Molpus suggested, produce the double-jeopardy phenomenon of the purchaser being required to pay twice.

AMI's position, of course, is that this is simply a fundamentally unfair rule, operating as a matter of State law, and that an appropriate response would come from the Congress in the form of the House bill.

Earlier hearings in both the House and Senate are replete with firsthand testimony of the hardship and inequity caused by this Uniform Commercial Code provision. Indeed, the testimony of the witnesses in those several hearings suggests that at least millions of dollars of losses have been generated by application of that so-called farm products exception in the Uniform Commercial Code.

The Stenholm-Gunderson bill, in our estimation, is an appropriate response, and we would like to suggest why and then indicate how that bill would respond to the problem.

The Uniform Commercial Code rule is, first and foremost, a historically anomalous provision in the Uniform Commercial Code, as several of the witnesses this morning have indicated. Buyers of agricultural products uniquely, among buyers of all forms of commercial inventory, are subject to the continuing lien of the producer's lender. There is nothing that emerges from the prior hearings on this issue in the Congress to justify the continuation of such an anomalous rule.

In particular, purchasers of farm products are in an impossible position when it comes to determining how to protect themselves. They have no effective, practical way to determine at the point of sale whether there are outstanding security interests, who holds them, or what steps are appropriate to take to satisfy those security interests.

The effect of the rule, in short, is to make all buyers of farm products involuntary guarantors of the loans held by their producers.

In fact, in law school, we would say that the case against continuation of the UCC farm products exception is so strong, so prima facie, that Congress' failure to act on it itself must be based on some compelling grounds. We have listened to the testimony offered by the lending industry in prior hearings and submit that they simply failed to make any persuasive case for continuation of the farm products exception in the Uniform Commercial Code.

One of the lenders' arguments is that farm products are so unique as contrasted with all other forms of commercial inventory, that the continuation of this special protective rule for farm products lenders is necessary. I think any assessment of the nature of farm products collateral and its various forms disproves that suggestion.

The lenders argue that buyers of agricultural products have inherent advantages—their phrase—to protect against the risk of the producers default in handling the proceeds of sale. What that ignores, of course, is that the lenders are the professional risktakers in this context and are in a position to maintain various monitoring and policing systems to protect their collateral and its proceeds, while the buyers have no equivalent opportunity.

The suggestion is always made that repeal or nullification of the farm products exception would somehow substantially increase the losses of farm products lenders and thus increase the cost of credit. The best counter to that, we submit, is the experience in California which, since 1976 has abolished the farm products exception and has shown unusual growth in farm credit, without any evidence that we are aware of shortages or undue increases in cost.

Finally, Mr. Chairman, the lenders suggest that since the problem here arises as a matter of State law from the Uniform Commercial Code, the appropriate response, if any, should come from the States, and that States in fact are acting to deal with the matter. We submit this ignores the realities of what is occurring. The problem arises from a uniform provision of the Uniform Commercial Code, applicable in all States, again, except California. The State law responses that are emerging are anything but uniform. Of the numerous States that have acted, so far as we can tell, no two State laws that adjust or tinker with the farm products exception have dealt with it in exactly the same way. That disparity of treatment in the States simply compounds the problems, especially in multi-State markets. Indeed, some Federal rule is, therefore, not only appropriate but, we submit, necessary.

Lastly, to refer again to the Stenholm-Gunderson bill now pending in the House, we submit that it is in fact a temperate and workable solution to the problem which would allocate some portion of the burden of dealing with these difficulties both to the lenders and to the buyers. Under the principle embodied in that bill, the buyers of farm products in the ordinary course of business, just as buyers of commercial inventory in the ordinary course of business, would be protected from prior liens or security interests. But a buyer would not qualify for this protection if the buyer had received explicit notice of the existence of the outstanding security interest or lien and if the buyer had then failed to respond in some appropriate manner, as by issuing a joint-payee check.

We submit, Mr. Chairman, that this is an approach that involves no hardship on either side and that all parties ought to be able to live with.

Mr. Chairman, we thank you again for the opportunity to present AMI's views, and we will be happy to answer any questions.

Senator **COCHRAN**. It has been some time since I have been in law school or practiced law, and I am wondering whether or not, under the Uniform Commercial Code, does actual notice of a lien or an encumberance make a buyer's title subject to that lien or encumberance?

Professor **ROHNER**. It may. The rule gets a bit more precise than that, I think, Mr. Chairman. There must not only be knowledge of the existence of the lien, but knowledge that the sale is in violation of the lien. The mere awareness of the existence of the security interest for commercial inventory—as opposed to farm products—mere knowledge of the existence of the security interest would not prevent the buyer becoming a buyer in the ordinary course of business.

Senator **COCHRAN**. Under the Uniform Commercial Code now, in the case of farm products, in order to protect your lien, what does the lienholder do—file a notice of that lien in the local registry, like the courthouse, and that protects his lien against the title of future buyers?

Professor **ROHNER**. Yes, sir; the filing of a financing statement under the Uniform Commercial Code is the typical technique under State law to protect the security interest. The effect, with the farm products exception in the UCC, is that it absolutely protects the lender's security interest against all subsequent buyers, regardless of actual constructive or other kind of notice that they may have, regardless of their utter ignorance of that security interest, and regardless in particular of the fact that practically, the buyers have no opportunity to check these public filings, or at least, little opportunity to check those public filings within the timeframes that those transactions occur.

Senator **COCHRAN**. Farm credit is a problem right now. We are confronted with suggestions to make more credit available to farmers. Would the adoption by the Congress of this suggested change make a serious matter even worse by making it less likely that lenders would advance credit to farmers?

Professor **ROHNER**. We certainly do not believe so, Mr. Chairman. Again, the experience in California may be the best guide. The farm products exception language was repealed there in 1976, and there has been no suggestion that we are aware of that farm credit has suffered or that farm production has suffered on that account.

Senator **COCHRAN**. That is a very interesting suggestion.

Senator Heflin.

Senator **HEFLIN**. Of course, the Uniform Commercial Code is probably the example of uniformity by States, with a lot of exceptions to each one. It is pointed out as being a prime example of the Federal Government not getting involved with the States through a movement bringing about uniformity. Probably, one of the shining examples are uniform commissioners or uniform laws, and the American Law Institute, and all this sort of stuff. But it was primarily a bankers' bill that was written, and I think the exemption given was primarily for the banking interest at the particular time, and it has worked to their advantage.

I am trying to visualize what will happen. I would assume that practically every security instrument that is executed today by a lender includes the crops, the produce of the farmer. If you have a federalized, nationwide change in this law, what will be the effects on the farmer, what will be the effect on the lending institutions, and of course, obviously, there is an effect on the purchasers; they like it.

I suppose, though, that every check that is written by a purchaser of a farm commodity, he generally makes it payable to the farmer himself and to lending institutions. I just wonder, though, whether this is common practice, or whether or not it would cause farmers problems. I would see that certainly, if it is not there, I would imagine that every purchaser, anybody that buys cattle, or anybody that buys any wheat—of course, the problem of grains and everything else—if this bill is passed, you will have where the check is going to be made payable—I imagine from the protection viewpoint, to the farmer and to any banking institution or financial institution that might have an interest in it. I do not know how that causes the problems. But you said you have had the experience in California since 1976. What has been the experience there? You touched on it briefly. Of course, I assume that you are going to give us an unbiased approach on this thing.

Professor **Rohner**. Obviously, Senator, I too am a great fan of the Uniform Commercial Code; it is my livelihood. Senator, I do not believe any purchaser of farm products would have objection to cutting the payment check in joint-payee form.

The difficulty arises when the purchaser is unaware of the existence of that secured party or the exact identity of that secured party, and particularly in a case in which the producer or the producer's representatives at the point of sale may not be forthcoming with that information.

The purpose of the pending Stenholm-Gunderson bill is simply to affirm that if the lender alerts potential buyers of the existence of that lender's security interest and of a condition such as joint-payee form for the proceeds check that attaches to release of that security interest, those buyers are then obligated to respond accordingly, to issue the check in joint-payee form, or otherwise account for those proceeds. And only if they did that would the buyers earn the protection of ordinary course status.

Senator **Heflin**. Well, now, what about marketing associations—certain types of commodities are handled through the marketing association such as peanuts. What is the effect of this going to be? I will ask you that, and then I will ask you this: Many people enter into contracts for the sale of their commodities, and they enter into contracts for the sale of those commodities in advance of, perhaps, maybe the operational loan from the lender.

Will there be a problem relative to the delivery of the contract which is issued prior to a security instrument being executed by the farmer to a lending institution and the dates involved?

Professor **Rohner**. Frankly, Senator, I would like to be able to submit something in response to that one, because I am not sure I feel comfortable giving you a flat answer off the top of my head. There could be a problem, but there will always be questions, even with the pending House bill in place, around the borders of what that phrase, "buying in the ordinary course of business" means; exactly what stage in the transaction must be reached, exactly what quantum of knowledge, as the chairman pointed out, would be sufficient to destroy that status. The skirmishing under that phrase, even in the UCC, for other than farm products commodities, has produced some rich litigation over the years. I do not think we would ever expect that that would all go away, so that there would remain, I am sure, some questions like that.

You asked about the marketing associations as well. The present version of the Stenholm-Gunderson bill deals explicitly with them. Since they are not always in the posture of buyers, they are not necessarily buyers in the ordinary course of business, but they deserve some separate treatment.

Senator HEFLIN. That is all, thank you.

Senator COCHRAN. Senator Melcher.

Senator MELCHER. I do have a general question for you, Manly. Why do you have a problem with the meatpackers? Can't you just cut a check from the packer that says pay to John Doe and whoever the lienholder or owner of the mortgage might be?

Mr. MOLPUS. Well, one of the problems is knowing who the holder of that mortgage is, and having that notification. We have one member that testified in the House last year from south Georgia—he even buys some hogs in Alabama—but in a 300-mile radius, he has about 150 county courthouses. And in our case, which I am sure you will recall, we are unique in that we also have a prompt payment requirement, and the law requires us to pay the producer within 24 hours, so we do not have a lot of time.

Senator MELCHER. Is it easier out there? I do not hear about it being a problem with packers out there.

Mr. MOLPUS. I am not aware that it is any particular solution or help. I just have not heard about it in that particular context.

Senator MELCHER. It seems like a very reasonable proposal.

Mr. MOLPUS. We think so.

Senator COCHRAN. Senator McConnell.

Senator MCCONNELL. No questions, Mr. Chairman.

Senator COCHRAN. Senator Zorinsky.

Senator ZORINSKY. Thank you, Mr. Chairman.

Mainly, the administration's budget request for fiscal year 1986 assumes that the entire cost of meat inspection would, within a 3-year period, be paid by processors through user fees. Thus, user fees are expected to fund one-third of processing and inspection program costs in fiscal year 1986.

Do you have any comments to make concerning your support or nonsupport of the administration's proposal?

Mr. MOLPUS. Well, first of all, we hope that is an assumption that not everyone will agree with. We certainly do not agree with it. We think in the first instance that our meat inspection system has served this country well. It has done that because it is known for its independence, its integrity, and its honesty, and I think we tend to dissipate that a bit when those who are being inspected start paying for the inspection.

Second, inspection is mandated by the Congress as a public benefit. Therefore, it defies logic to then run around and assess the industry for it. It is also a discriminatory proposal against the red meat industry, in that there are no similar proposals made to charge the industry for inspection of other food manufacturing.

So we are not real excited about it except in our opposition to it. It is a uniquely bad idea. [Laughter.]

Senator **Zorinsky**. Then, we can put you down for leaning against that one. [Laughter.]

In 1984, the United States imported about 1.8 billion pounds of beef, and; about the same amount in 1983, approximately 1.9 billion. What effect do these imports have on beef prices in this country? Do you think the countercyclical beef import quota bill should be modified, or do you think excessive imports of beef have depressed beef prices in this country?

Mr. **Molpus**. Senator, I think, so far, we think the countercyclical approach is working reasonably well. I recall that at the time, AMI was not that enthusiastic about that approach, but so far it has worked pretty well. We have not really pushed up to those quotas. I think it is good in concept, and it seems to be working pretty well on a practical basis.

Our meat imports will be down rather dramatically this year.

Senator **Zorinsky**. Thank you.

Senator **Cochran**. Thank you for your excellent testimony and assistance at the hearing this morning. We appreciate your being here.

Our next witness is Keith Propst, who is president of the Colorado Farm Bureau in Denver. He is representing this morning the American Farm Bureau Federation.

STATEMENT OF KEITH PROPST, PRESIDENT, COLORADO FARM BUREAU, DENVER, CO, REPRESENTING THE AMERICAN FARM BUREAU FEDERATION

Mr. **Propst**. Thank you, Mr. Chairman.

We have copies of the testimony, and what I have given you is a little bit different, because we corrected a few errors in the statement.[1]

I represent the American Farm Bureau, which is the largest general farm organization. I am a cattle, grain, and sugarbeet producer from Merino, CO, and serve as president of the Colorado Farm Bureau, and I am on the board of directors of the American Farm Bureau Federation.

The Farm Bureau appreciates the opportunity to appear before the Agriculture Committee regarding our position on the impact of farm programs on producers of livestock and poultry.

The 1985 farm bill is a priority issue among the Farm Bureau, as you might expect. We have had extensive discussions in our States, at the county and State levels, and we represent producers from all commodities. About half our producers come under the authority of the farm bill, and of course, over half of the production in this country comes out from under the farm bill, with no direct subsidies from price supports.

So, we have a very tough job in the Farm Bureau, to try to get all these interests together and support farm legislation that is good for agriculture as a whole.

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[1] See p. 421 for the prepared statement of Mr. Propst.

We believe that in the long run, a market-oriented agriculture is the best way to solve the differences between commodities. A market-oriented agriculture means that supply and demand, rather than Government action, should ultimately determine production and price. However, our delegates realize that after 50 years of farm programs, revisions must not occur too abruptly.

I am sure President Delano has outlined to you the general program that we support. You will have detailed testimony from different members of our board and our president as time goes on. So I would like to address my testimony this morning to point 9 on your sheet, which says that we recognize that all commodities are interrelated, and any change in supply, demand or price of one affects the other.

The interrelationship of commodities is of critical importance to those farmers and ranchers that produce commodities that are not covered by farm programs. The livestock and poultry industries are dependent upon the grain industry for feed, and are affected by competition from the dairy industry as dairy animals are sold in livestock markets when herds are reduced.

Changes in grain and dairy programs, therefore, play a very significant role in the determination of cost of production, livestock prices, and profitability. Livestock producers are not requesting increased Government intervention in livestock markets that has occurred as a result of farm policies.

To illustrate this point, I would like to give the committee members some examples of how grain and dairy programs can affect the cattle industry.

I come from a substantial cattle feeding area along the South Platte River in Colorado. As a result of the grain PIK Program in the summer of 1983, cattle feeders could hardly find corn at any price because the Government was buying up all free stocks to fulfill PIK contracts made to grain farmers. This resulted in substantial losses to cattle feeders who in turn had to pay less for calves.

Later in the fall, we were just getting adjusted to that when Congress announced that they would consider a dairy diversion program in response to the mounting dairy surplus. The very day that the program was announced that they were going to consider it, the futures markets fell, cash prices fell $5 to $10 at Brush, CO, for feeder calves, and this is the largest market in Colorado and handles 5,000 to 7,000 head per week. This action cost ranchers millions of dollars across this country before the bill was even passed, and since then, we have had a continued depressed market as dairy cattle have come onto the market.

I would like to briefly address several specific concerns that are particularly important to livestock producers—and of course, the entire proposal, I cannot talk about because it is too lengthy. We think that there should be a couple of real significant changes in the farm bill. We believe that loan rates should be moved downward, and we think it should be set at 75 percent of the 5-year domestic price, excluding the high- and low-valued years.

To avoid wide fluctuation in loan rates, however, we propose that the rate of adjustment would be no more than 10 percent in any 1 year, including the first year of the program.

Livestock producers will benefit from the use of this flexible method of setting the loan rate. Commodity loans would be based upon market signals and would not be a mechanism to set the market price. Adjustments in feed grains would occur if dictated by market conditions.

However, we realize this is a big adjustment for grain farmers, so we would favor the continuation of the target price concept, only we would move it downward over a period of time and not eliminate it overnight. We think that this would help the grain farmer make the adjustment to the new, market-oriented agriculture.

We recommend freezing target prices for 1986 at 1985 levels, and then we would start down with target prices, not moving them more than 5 percent a year until they got down to 110 percent of a 5-year moving average of the domestic market. By not moving more than 5 percent in any 1 year or so, as you can see, this would be a very gradual adjustment to a market-oriented agriculture with target prices. However, we think that by lowering loan rates, we would start to move our products in the world markets.

We support acreage reduction programs if carryover supplies exceed workable levels. But even with these programs, we must be careful how they are implemented, or they will have a detrimental effect on the livestock industry. For, if set-aside acres are grazed by livestock, it means more pounds of beef that must be consumed.

We favor the elimination of the farmer-held grain reserve. Grain reserves are great while you are building the storage, but once you have them built, they have a great depressing effect upon both the grain and livestock markets, because nobody knows for sure what is going to happen to these tremendous reserves. We know what happened in 1983—the Government had to come out with the PIK Program to reduce the costs.

We do not favor a discontinuation of the dairy program, but we think there should be some changes to make it more oriented and more responsive to Government storage; as the amount of storage goes up, we think the support price should go down.

We are strongly conservation-minded in the Farm Bureau, but we also believe that the Government farm programs have provided incentives to plow up fragile lands. For instance, in Colorado alone, over 650,000 acres have been plowed in the last 5 years. Our delegates take stronger action on this every year. This year, we said that we oppose economic incentives to artificially stimulate producers to bring fragile lands under cultivation. Any producer that brings this land under cultivation should not get Government support on any of his farming operations.

We clearly support the issue that has just been addressed by many of the previous speaker on the clear title of agricultural commodities. We hope that Congress will do something about that problem.

And of course, we believe in the Farm Bureau that the best program of all, in fact, the only one that will help all of agriculture in an equal way, is the reduction of the Federal deficit so that interest rates will come down, and our products will start moving in world markets. Therefore, we support a freeze on all Government programs, including agriculture programs, at or below 1985 levels.

Our policies are developed and adopted by our membership which includes producers of all commodities. We continue to support farm programs, but believe that they must be tied to market signals, and we must not prop up one segment of the industry if the effect will be injurious to another segment.

So, on behalf of our livestock producers in the Farm Bureau, I believe that our farm bill proposal accomplishes both objectives. I know the Farm Bureau would like to work with the committee in the future, and I would like to try to answer any questions that you might have this morning.

Senator COCHRAN. Thank you very much for the presentation, Mr. Propst, that you have made to the committee. I remember, and probably others do, too, that on the first day of hearings, we heard from Robert Delano, who was representing the American Farm Bureau Federation. It is interesting to me that, this year, we do have such a great opportunity to help attract attention to the problems of agriculture. That first day of hearing, we had the auditorium over in the Dirksen Building set aside for the hearing; we had a large number of witnesses, and probably more media attention than at any other agriculture hearing that I can recall in my 12 years here in Washington.

So I think it is a good opportunity for us to talk about how important agriculture is to America. Our economic well-being depends upon a healthy agriculture sector, and I think this year we have a tremendous opportunity to get support throughout the country for an agriculture bill that will make it more possible, more likely, that farmers can operate profitably. It is just a matter now of getting together on what action needs to be taken, what provisions of legislation would enhance that profitability. I think that is our charge this year, that is our goal.

It is interesting to me that you support the deficiency payment target price concept as a way to protect farmers from marketing disaster, so long as it is tied to market factors and not just picked out.

Mr. PROPST. Well, in prior testimony, our delegates say that we should provide target prices as an income supplement for farmers to help them make the adjustment to a market-responsive agriculture. We think that getting the loan rate down so that we can compete in world markets with our products is the most essential thing at this time, and this may be a big shock to the grain industry, and so in the short term, at least over a period of several years, we think we should be very careful about reducing target prices at a very fast rate. This would give the grain farmer some protection to help him make the adjustment to a newer market-oriented agriculture. But we do not believe target prices should remain static. We believe that they should gradually move downward, and hopefully, someday, we could even get out of them complete. But at this time, we do not perceive that in the next 4 or 5 years; we will probably have to continue to have target prices as a way to help supplement the grain farmers in making the adjustment.

Senator COCHRAN. It is interesting to me that the Farm Bureau does support that and that this is the way, generally, that the cotton program has been operated for the last few years. It is not true for wheat or grain, but the cotton program has been more tied to market conditions than the other two commodity programs.

Senator Heflin.

Senator **Heflin**. I also invite the American Farm Bureau Federation through you to give us in writing their thoughts on what can be done to increase markets, and primarily export markets. I assume practically all the testimony we have had, including the Secretary of Agriculture, is that if you are going to increase markets, you have got to increase them in export. What mechanisms, or what would you suggest be changed, or if you have some innovative thoughts as to how you would increase it, we would like to have this in writing.

Mr. **Propst**. Well, I think you will have, but just briefly, I would like to highlight some of the things we are talking about. We think that the deficit is one of our biggest problems in marketing, by creating the strong dollar. We think our bargainers should get a lot tougher in international negotiations. The Farm Bureau sponsored several trade missions to both Japan and Europe to try to talk to those people. It is easy to talk about getting tough until you get there and you find out how damn tough they are and what kind of hardball they play.

I think one of the things we have found is that as we change administrations, we change negotiators, and they are dealing with the same guy that has been there for 20 years, and he knows our farm programs better than we do. But we also think that we should be a lot tougher, and we should give the Secretary of Agriculture probably some more tools. In the farm bill that will be presented to you, I think our board decided that one of the tools that we might use was if we look at the cost of storing grain per year, that we subsidize that grain into the world market at least to the cost of what it would cost to store the grain for a year. That would not cost the government any more, and it would give him a tool to help break down and combat some of those countries that are using trade barriers against us.

We think the lowering of the loan rate will have a significant effect because, you know, how long can some countries continue to subsidize if they are competing against a lower loan rate in our country? The way we are operating now, we signal to the world what the world price is going to be by establishing a loan rate, and they just sit there and underbid us, just like any good seller would in the world market.

I think another very detrimental thing that has really hurt us over the years are the embargoes more than we really realize. Especially, wheat producers and grain producers have absolutely spent millions of dollars, traveling around the world, opening up markets. They no sooner get the market opened up, and we have an embargo that destroys these efforts, destroys these markets, and it takes us years and years to get them back. We simply have to realize that in agriculture, unless we are going the route of continually reducing our agricultural plant, by acreage reductions, that we are operating in a world market with many of our commodities, and that we have got to be reliable suppliers, and that we cannot mess around with our markets every time we get a political crisis abroad, and use that as the only tool of whacking somebody when, in effect, in the long run, it does not hurt them at all; they just go into the world market and get it somewhere else.

Senator **Heflin**. I would also like to invite the American Farm Bureau Federation to give us their thoughts on the tax simplification bill.

Mr. **Propst**. I was hoping you would ask me that. I have been in and out of cattle feeding a long time, and Colorado is a small cattle feeder. One of the things that is hurting agriculture the most, and probably the cattle feeding has affected it more than anything else—it is estimated that 80 or 90 percent of the cattle on feed in Colorado last December were being fed for tax reasons by outside investors. Most of the legitimate farmer-type cattle feeders have gone out of business by going broke for one reason or another, and people have come into agriculture for tax reasons, and that is one of the reasons we are having a depressed market right now, is that they want to get them past the first of the year, get the income in the next year, and then they dump the cattle. We tend to bunch cattle and have buyers in and out of the market, not for profit reasons, but for tax reasons. We think that this is affecting not only cattle feeding, but people are building hog houses and depreciating them, poultry houses, and everything else, and once that is built, of course, they care if the price goes down, but that does not mean they are going to leave the thing idle. They are going to go ahead and depreciate it out and produce and make a good deal for them taxwise, even though they may lose a little money raising the hogs or feeding the chickens.

We will have recommendations when that bill is considered.

Senator **Heflin**. Well, we would like to have them here, relative to——

Mr. **Propst**. I think Congress has given farmers some tremendous breaks taxwise, but the only way we can take advantage of them is if we make money, and if we do not make money, outside investors come in and use that, really, against us. Much of the land that was developed in Nebraska for sprinkler irrigation, a lot of that had tax incentives behind it; they buy a cheap piece of land, put a high-priced sprinkler on it, depreciate it over many years; sell the land at a higher price, take capital gains, and come out smelling like a rose. If you take all the increased production that has come about just from those kinds of things in Nebraska alone, and you take out all the fragile land that has been plowed out in Colorado and many of the Western States, if you take those kinds of things out of production, we might not even have a surplus problem at this time.

You know, we in Colorado the last few years have seen a ridiculous thing where, on one side of the road, we have the Government paying the farmer thousands of dollars to take land out of production, and on the other side of the road, somebody is plowing out thousands of acres of fragile lands, knowing that down the road a year or two, he could get this under a farm program and get all the benefits. Somewhere along the line, we cannot—we are giving two kinds of signals to farmers out there, and you cannot really blame them for taking advantage of it, I guess, but in a way, the Government is responsible for giving those kinds of signals. So if we are going to have a problem, we need to have teeth in it.

Senator COCHRAN. Senator Melcher.

Senator MELCHER. Mr. Propst, what about sugar? You are a sugarbeet producer.

Mr. PROPST. Well, I think sugar is clearly a protected commodity in this country, and you know, when you talk about is there a free market on anything, I guess sugar is the best example that there is not a free market on anything. Almost every country that produces sugar has a very structured sugar program, and if they come up with a surplus, they just dump it in the world market, and the only market has been the United States. It is clearly a protected program, and the only way it can survive is with some kind of a tariff or protection.

Senator MELCHER. You need 18 cents, plus the notch?

Mr. PROPST. Well, for sugarbeet growers, it is very tight to survive that, but I guess they could get by.

The Farm Bureau supports the sugar program as it is now structured.

Senator MELCHER. That is with the notch.

Mr. PROPST. Yes.

Senator MELCHER. Sodbusting broke down between the House and the Senate, unfortunately, last year. Do I understand you to say that the Farm Bureau supports prohibition against all farm programs?

Mr. PROPST. Yes, sir. At our convention this year, it changed to the more restrictive proposal.

Senator MELCHER. What was called cross compliance?

Mr. PROPST. Yes.

Senator MELCHER. I would take it either way. We in Montana need it just as much as you do.

Mr. PROPST. So I think we would probably have a unified front in agriculture on that particular issue now.

Senator MELCHER. When you say lower the loan rates, I assume you mean lower the loan rates for crops in 1986. But you also want to maintain the deficiency payment. If we lowered the loan rates 10 percent that would create greater exposure between the loan rate and the target price, so the deficiency payment might be increased by as much as $600 million in wheat alone.

Mr. PROPST. Well, our economic division projects that in the first year or two of our program, it will be—well, not as expensive as we are spending now—but an expensive program, but after about the third year, it would decrease pretty rapidly.[1]

Senator MELCHER. But you do mean lower the loan rate the first year, but hold that target price at 1985 levels.

Mr. PROPST. Yes. In 1986, we would freeze the target price where it is now and start down with the loan rate, not lowering it more than 10 percent a year, but eventually get it down to 75 percent of the 3-year or 5-year moving market average.

Senator MELCHER. One last question, Mr. Propst. Part of a disposable surplus commodity program is donations. Do you have any level on that?

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[1] See p. 423 for an economic analysis of the Farm Bureau farm bill supplied by Mr. Propst.

Mr. Propst. Well, we have been strong supporters of Public Law 480—I think that is the title—and try to give as much food away as we can to starving people that is reasonable. But we know that that is not the solution to our problems, that we have got to build real markets and get real dollars for them.

Senator Melcher. All right. Thank you.

Senator Cochran. Thank you very much, Mr. Propst.

Mr. Propst. Thank you. This is Rob Nooter, our staff member in charge of farm programs, and if you have any detailed questions or want more information, he will be glad to supply that.

Senator Cochran. Our next witness and our final witness for this morning's hearing is Benny Bunting, who is a member of the steering committee of the United Farmers Organization. He is from Oak City, NC.

Mr. Bunting.

STATEMENT OF BENNY BUNTING, MEMBER, STEERING COMMITTEE, UNITED FARMERS ORGANIZATION, OAK CITY, NC

Mr. Bunting. Thank you.

As you can see, I am new, and not as well-prepared as the other gentlemen who have been here. But I came representing poultry producers, not the integrators, but the growers themselves.

I am a broiler grower from Martin County, NC. My wife and I began in the poultry business in 1976 with high expectations of having made a profitable investment. We were persuaded into this business opportunity by favorable advertising and fast-talking professional salesmen. These salesmen even recommended financing institutions that they had already convinced to be receptive to new, prospective poultry growers. The institution to be FmHA, PCA and the Federal land bank, and they were, as has been represented, very receptive.

As you can glean from my appearance here, things down on the poultry farm are not doing so well. I have experienced firsthand the initial courting of the integrator, which is shortlived, for after you are signed and sealed in debt bondage, reality soon comes to roost down on the poultry farm. Immediately, we find that chickens are not the only thing in total confinement. The grower is required to monitor the broiler houses continually. The partnership between the grower and the integrator is soon over. You have a contract with, and a huge investment in the industry, but no input or consideration into its operation. The broiler houses are designed by and built by the integrator and paid for by the grower. Yet there are almost constant requirements for expensive improvements paid for by the grower out of his limited income. If you balk at installing new equipment, intimidation is used openly and immediately with threats of no more chickens.

There is very little thought of or support for the grower by Government. Laws to regulate the business opportunity contract are either ignored or changed to suit the integrator. The extension service has developed a cash flow for a broiler house—this is the North Carolina Extension Service—showing an investment of $86,000 per unit, per broiler barn, but a return to land and management of only $1,409 per year. Any Government lending institution—FmHA is who we are talking about particularly—financing this operation can only be subsidizing the poultry integrator, and the farmer is destined to almost sure financial problems. Dr. W. Keith Scearce, agricultural economist with Economic Research Service at USDA, stated recently at the 1984 Economic Outlook Policy Conference at North Carolina State, that "Twenty percent of all poultry growers are in severe financial problems." With these facts, you would think our legislators would demand more controls on the integrators and not relinquish the few protective rights we now have. We are disadvantaged by our small size and independence. We must be trained and supported in the art of collectively negotiating for more equitable contracts with big business.

Now, I am going to talk about the contracts. Broiler contracts are very inadequate when it comes to protecting the growers' huge investment. The latest contracts in our area now state that the contract can be terminated with 2 weeks' notice prior to the movement of the last flock.

Pay is determined by your average production cost. But APC is something the grower has little control of. Feed is the main determining factor in APC. Growers have no scales to see if they are getting correct feed weights delivered to the farms, and I am sure we do not, because in the materials I have, I have court records of where 11 of the local integrators' drivers were charged with stealing feed, but we can find no record of any credit that was given to any of the growers for the feed that was stolen, as compensation for it.

Packers and stockyard rules state that when group rankings are used in determining pay, we are entitled to see the figures used. All we see is a final ranking order and that is just for a glance and we are not supplied anything. The rankings are unfair and should not be allowed. We should be paid on our own merits, not cloudy comparisons. That would also allow us to be paid as other livestock growers and not have our checks held as long as 12 days to determine rankings.

The contract system enables corporate integrators to treat the farmer as an employee without an obligation to pay them as employees or provide job security.

As long as the farmer is under contract, they are considered independent operators. The companies provide no health insurance, workers' compensation, vacation pay, et cetera. The farmer is expendable even after shouldering major financial risk.

That is the statement that was passed out. I have other material I would like to leave. One thing I would definitely like to leave. This is an order from the FmHA office, requiring guidelines on the financing of new poultry operations, and it says that they consider the existing facilities and make sure that they will not be cut off or dropped from production just to compensate for the new ones coming in. This expires April 30. So we would like to enter this.

Senator COCHRAN. These will be made a part of the record as exhibits to your testimony.[1]

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[1] See 438 for exhibits 1, 2, and 3 furnished by Mr. Bunting.

I have some relatives back in Mississippi who are contract growers for integrated poultry operations, so I am personally familiar with some of the things you are describing to the committee. My grandparents did some contract growing, and I also have some cousins down in Perry County, MS, who are involved now as contract growers. They keep me up to date with some of the problems they have.

I think you have identified some serious concerns that many have, probably in your State and mine, too, and in other States in the southeastern part of the United States.

You mentioned that you are a member of the steering committee of the United Farmers Organization. Is this the UFO, the National Farmers Organization, or is this a local organization?

Mr. BUNTING. No. Two States, North Carolina and South Carolina operations. We just got together this past November, and we are in our infancy right now. We do have some programs that we support, and we will be forwarding up here if we can get them on record, because we are aware of some problems that are going on here with the Uniform Commercial Code. We do not feel, as the gentleman here felt, that it does not affect farmers. In my area, we are small farmers, we are farmers who rent a lot of land. Doing away, or treating the farm product the same as consumer goods would, in effect, have the lending agencies putting out personal notes to the farmers, and they are not going to do that, because there would be no security.

North Carolina has acted pretty well on this case. As of January 1, all liens are to be registered with the secretary of state in Raleigh, and then the only responsibility we would have would be to get in contact with the secretary of state. If the name was registered, he would know it immediately, because it is going to be on computer file, and you would write the check accordingly. But we still need protection on the Uniform Commercial Code, for lending agencies to have faith in the farmers in our area.

Senator COCHRAN. Does the United Farmers Organization have members other than contract growers?

Mr. BUNTING. Yes, sir. We have dairymen, hog producers, tobacco growers—it is a whole coalition of small family farmers.

Senator COCHRAN. You have been very helpful to bring attention to a problem that exists in your State and in some other States, and we appreciate your being here and helping us get an overview of our agricultural situation as it affects all farmers throughout the country.

This is the conclusion of our hearing. We will stand in recess until call of the Chair.

[Whereupon, at 12 noon, the committee was recessed, to reconvene at 9:35 a.m., Friday, March 22, 1985, in room 328-A, Russell Senate Office Building.]

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

Dairy Issues

FRIDAY, MARCH 22, 1985

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:35 a.m., in SR 328-A, Hon. Thad Cochran presiding.

Present: Senators Cochran, Boschwitz, McConnell, Leahy, Melcher, and Heflin.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator **COCHRAN**. The committee will please come to order.

This morning we continue our series of hearings relating to issues surrounding the writing of a new farm bill. This morning we will be discussing issues involved in Federal dairy policy. As all of you know, recently enacted legislation providing for a diversion program in the dairy industry will be expiring soon.

This will be one of the most important areas of interest as we begin writing the new farm bill for 1985. In the past, efforts by the Federal Government and the industry to control production and try to keep a balance between dairy products produced on the dairy farms in America and the demand that existed for them have been very successful. However, in recent years, there has been a growing imbalance between production and demand.

The cost of the price support program grew from $250 million in 1979 to nearly $2.6 billion in 1983. Even with the diversion program which provided incentives for reducing production, program costs are estimated this year to be close to $1.5 billion.

The dairy industry has assumed a lot of financial responsibility for promoting the sale of dairy products and for reducing production. It has been one of the best kept secrets in America that the dairy farmer has been paying the costs of promotion and providing the incentives for cutting back production. I think the dairy industry should be congratulated for assuming that responsibility and trying to do more than its share, in my judgment, in reducing the costs to the Government of this program.

We are going to be looking at testimony today that provides the committee with suggestions for action that can be taken to try to protect this important industry, which has historically provided an adequate supply of safe and wholesome, nutritious product at very reasonable prices to the consumer.

That is the goal of the Congress this year: Trying to make sure that we protect the industry, provide profit incentives for farmers to stay in business, and at the same time make available adequate supplies at reasonable prices. That is our goal, and your being here this morning will be very helpful, I am sure, to the committee as we work toward achieving success in writing that kind of bill this year.

I am glad to have here this morning other members of the committee. Senator Melcher of Montana. Senator.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator **Melcher**. Thank you, Mr. Chairman. Regretfully, I will have to leave at 11. But I would like to say that I am impressed with the witness list. For example, I would love to hear testimony of ice cream manufacturers who produce one of my favorite foods, as well as hear from the Alabama Farm Bureau, which always adds a refreshing attitude toward making American agriculture survivable in a tough economic world; and of course, from the butter and cheese people who I think have a lot to tell us and a lot to teach us on how to develop markets for dairy products abroad; and also I see the Chocolate Manufacturers Association is here, too.

I want to say one thing to all of you connected with dairy products. I happen to believe that we have been losing an awful lot of opportunities to expand our trade abroad through using dairy products, and that I think it is reprehensible that export through section 416 has actually been thwarted, discouraged by our own Government. I think we can work collectively to make sure that that is changed and changed very rapidly. That attitude and that inaction, some of which I have observed personally, discourages 416 application from countries abroad.

None of us on this committee want this program to be discouraged, and I am not quite sure why it is happening, but it is. Whether it is individuals within AID or within the Department of Agriculture that have fashioned that type of operation in various countries, either their attitudes must be changed or the individuals must be changed. Thank you, Mr. Chairman.

Senator **Cochran**. Thank you, Senator. Senator Heflin.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator **Heflin**. Mr. Chairman, I have a brief statement. I think this is a very important phase of the overall farm legislation that we will be considering. Dairy is a very important one and has been in the past a very expensive one. But, nevertheless, I think it is one that we must give a great deal of time to. There are different divisions of the dairy industry throughout the United States. My State is known as a deficiency State. A deficiency State is a State that does not produce enough milk to meet the demands of the customers within that State. As a result, these States have to buy milk from other States. Unique problems develop as a result of this. There are some 36 deficiency States.

After reviewing problems dealing with the dairy interests I think we have not looked carefully at those deficiency States. I would like to see that as we consider in the Agriculture Committee the farm bill and the dairy provisions of it that, we give adequate attention to those states that fall in the deficiency category. These States do not sell to the Government at all. I think that their unique problems ought to be very carefully considered.

Senator COCHRAN. Thank you, Senator. Senator Leahy.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Senator LEAHY. Thank you, Mr. Chairman. Mr. Chairman, I have a longer statement for the record, which I enclose.[1] I would note for the committee that, only this past Monday, we held a similar hearing in my home State of Vermont, and you, Mr. Chairman, were good enough to come to Vermont and chair that hearing. Of the two major dairy hearings, I am pleased that one of them could be in the State of Vermont. Today we will have a Vermonter, Mr. Patterson, who is here to testify later on.

I would note though that the weather is worse here in Washington today than it was in Vermont. I told the Chairman that when we arrived in Vermont on Monday morning it was 20 degrees above zero, but that was 50 degrees warmer than the last time Senator Cochran had been in Vermont. Senator Heflin made a couple of comments about how much better off we would have been if we had gone to Alabama.

We heard many questions in Vermont. Just to add a Vermont perspective, because Vermont is a dairy producing State, Vermont has a long and proud history of agriculture. We asked whether Vermont dairy farmers were interested in a dairy program that limits the marketing of milk and will Vermont dairy farmers participate in another dairy diversion program if one were offered. Do they want to participate in a quota program that might penalize them for excess production? These questions had been left unanswered after many meetings with Vermont dairy farmers. To try to get the answers, we held the hearings on Monday up there.

A wide variety of opinions were expressed at the hearing by a cross section of the Vermont dairy industry and officials from the State government. More important than that, we heard from dairy farmers themselves, the people who these programs are supposed to be designed for and the people who have to operate under programs the Government sets up—the people who have really the most at stake.

Now, we might not have heard it from everybody, but we heard some very valuable testimony from a wide cross section of Vermonters. Among the things we heard was that young farmers need help. Nearly every farmer in Vermont has at one time expressed concern for the future of farming and for the future of our own

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[1] See p. 446 for the prepared statement of Senator Leahy.

State of Vermont if young people cannot begin farming, or if young farmers are put out of business through no fault of their own.

Vermonters said that there should be a long-term focus to dairy policy. The rules have changed nearly every year. Vermonters want a dairy program that people can plan on, one that goes on for a number of years. It should be fair to family farmers and able to increase the domestic use of milk and dairy products.

One of the things that came out over and over again and we should really focus on, Mr. Chairman, is that it is not a question of milk being overproduced as much as it is milk being undersold, and increasing consumption must be a key objective of any program. There cannot be undue interference from imports. We are a country, after all, that can compete with any other country in the world if we can complete fairly. But it does not do much good to ask American farmers of whatever type to compete with foreign countries if those foreign countries have their imports heavily subsidized and you have both that and the double whammy of a strong dollar hurting us.

I think that unity on dairy policy has got to be a chief objective of all dairy producers. It certainly is among Vermont farmers. Then there has to be realistic provision; Vermont dairy farmers are aware of the past criticism of the milk price support program. They recognize the dangers of overly generous price support program provisions. But they also point out something else. We talk about consumer interests. Every farmer is also a consumer. Now, a lot of consumers would not be able to make it today were it not for them. So, they want to be fair. They are first and foremost Americans. They pay taxes. They do not want something that is simply open up the Treasury doors. They want something that works, but they also do not want people to forget that they are consumers and they are among those consumers that make it possible for Americans to be the best bet at the lowest price of people in any other country.

Last, Mr. Chairman, as I said on every farm program that comes before us, it is a matter of national security. We are the most powerful nation on earth, but we are also the only major military power in the world that can feed itself. Let us not have programs that are going to end up putting us in a position where at the end of the century we have to import food rather than having the ability to feed ourselves and still export food.

But, again, Mr. Chairman, I think you for having these hearings, and I thank you once again for coming to Vermont. You sort of feel bracketed, I think, by dairy states. I see my good friend from Minnesota, Senator Boschwitz, who was one of the leaders in our efforts last year to try to get a dairy program through. At that point, I yield.

Senator COCHRAN. Thank you very much, Senator. Senator Boschwitz, welcome.

Senator BOSCHWITZ. Thank you. I have no opening statement.

Senator COCHRAN. Thank you. [Laughter.]

We are glad to invite our first panel of witnesses to come to the table to present their testimony, Norman Barker, who is president of the National Milk Producers Federation, from Pratt, KS. He is accompanied by Elwood Kirkpatrick, who is president of the Michigan Milk Producers Association of Southfield, MI, and Peter Curra, president of the Maine Farm Bureau Association, Augusta, ME, representing the American Farm Bureau Federation. If each of you could come forward to the witness table.

We have sent letters to all witnesses inviting them to testify today and encouraging witnesses to keep their opening statement and presentation within a 5-minute limit. If you can do that, that will help us be able to discuss your testimony. We have written statements which have been furnished to the committee. These will all be made a part of the record in full, so we would encourage you to make summary comments from those written statements for the benefit of the committee. Mr. Barker, please proceed.

STATEMENT OF NORMAN H. BARKER, PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION, PRATT, KS, ACCOMPANIED BY ELWOOD KIRKPATRICK, PRESIDENT, MICHIGAN MILK PRODUCERS ASSOCIATION, SOUTHFIELD, MI

Mr. **Barker**. Thank you, Mr. Chairman. We appreciate this opportunity to be here and your consideration of these views in this hearing.[1]

I am Norman Barker, dairy farmer from Pratt, KS, president of the National Milk Producers Federation and member and secretary of Associated Milk Producers, dairy cooperative marketing association headquartered in San Antonio, TX.

As you know, the Federation is a national farm commodity organization representing approximately 80 percent of the dairy cooperatives in this country. My written statement addresses the changes needed in authorities for milk marketing order program, for other domestic nutrition programs, and the need to protect dairy farmers from subsidized imports from other nations.

My testimony is directed toward what we believe is a necessary part of a national dairy price support program which will fit into the general agricultural policy.

The proposals outlined in this statement today respond to, we believe, the existing needs that will develop an atmosphere within which a strong dairy industry will continue in the future. We believe the dairy price support program should be maintained as that central policy element which provides the needed price assurance and stabilities. We believe the structure of the dairy program should contain the following elements.

First the program should contain a dairy pricing index to establish support prices, a supply-demand adjustment to adjust support prices relative to expected Commodity Credit net purchases, and a standby authority for an incentive-penalty program to be used when substantial adjustment in supplies is necessary.

These are the basic objectives of the program we advance. We would like to point out that the dairy price support program has accomplished many of these objectives by reducing some of the risk to dairy farmers, and in the study concluded by the Department of Agriculture for the 1981 Farm Act the price support program decreased price fluctuations which allowed milk to be produced at a lower cost. And this study also showed that an appropriate degree of milk price stabilization by Government may actually lower average milk prices to consumers over the long haul.

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[1] See p. 448 for the prepared statement of Mr. Barker.

The statistics that we have bear out this conclusion of the Department. Last year it required about half the amount of time to buy one-half gallon of milk than it did in previous years. Although the dairy price support program series producers and consumers well, at the beginning of the 1980's many circumstances which were beyond the control of this program resulted in increased Government costs; cheap grain as a result of the Soviet grain embargo, high inflation, loss of off-farm opportunities, and depressed conditions in other sectors of agriculture just resulted in the accumulation of more resources in the production of milk.

We in the Federation of National Milk Producers recognized this early in 1981, 1982, and 1983 and brought programs to the Congress which really treated the symptoms of the problems—high Government cost and the purchase level, but it could not cure the basic ills or the roots of the problem, which, among others, were cheap grain and unemployment. This could not cure all the economy ills with a simple change in the dairy program.

But, as you mentioned, Mr. Chairman, on November 30, 1983, Congress worked to devise a program which did bring about a reduction in purchases. It provided for this milk diversion, which was financed by dairy farmers, all dairy farmers; 38,000 availed themselves to participate in this program including myself. This represents about one out of five commercial dairy farms in the country. Importantly, it reduced production by 4.6 billion pounds or a percentage of 3.3 reduction (adjusted for leap year).

The second part of that program was a national advertising and promotion area funded by all dairy farmers. This has increased consumption of milk and dairy products with the initiation of this major promotional effort through the National Dairy Board. We are optimistic that increased consumer awareness of the nutritional benefits of dairy products will further stimulate demand.

As a result of the decreases in production in this program, net Commodity Credit purchases decreased by one-half with a saving of $1 billion in the budget requirements.

Mr. Chairman, I would like to repeat again the four objectives that we have developed through the National Milk Producers Federation: (1), to be sure we have an adequate supply of pure and wholesome milk; (2), one which stabilizes prices but only to the degree that in the long run market prices are allowed to adjust the resources in milk production; (3), that we encourage market demand and growth and the consumption of dairy products; and (4), last, but not the least important, is to provide for the standby authority for an incentive penalty plan when substantial adjustments in supply are really necessary. Keeping these four objectives in mind, the federation has been working for a consensus among milk producers. Mr. Kirkpatrick will follow and detail the elements of that program which will place a cap or ceiling on Government costs.

Senator COCHRAN. Mr. Kirkpatrick.

Mr. KIRKPATRICK. Thank you, Mr. Chairman. I am Elwood Kirkpatrick, a dairy farmer from Kinde, MI. I am also president of the

Michigan Milk Producers Association, a dairy cooperative marketing association headquartered in Southfield, MI. I serve on the board of directors and the executive committee of the National Milk Producers Federation.

I am pleased to have the opportunity to appear before this committee as it deliberates on the 1985 farm bill. I appreciate the opportunity to explain what the Federation has done to develop a dairy program consistent with the four objectives our voting delegates agreed should be used to develop a dairy program for the 1985 farm bill. The first element of the program is the continuation of the purchase program. The purchase program has been used successfully since 1950 to regulate the supply of dairy products with demand.

Product removed from the market during the flush production months has prevented fire sale prices and maintained markets for producers. In most years adequate supplies have been available in storage to modify price increases in the fall, a normal short season of production. This has stabilized prices to producers and consumers and has not sent false signals of surpluses or shortages to producers because of seasonal price swings.

The second element of the program should be the adoption of a new dairy pricing index to determine the support price of milk. We believe that the current parity formula has developed some undesirable aspects which will make it less useful as a price setter in the future.

The Federation's board of directors firmly believes that the support price should be tied to a realistic pricing formula. Any formula developed to replace the current parity index should reflect the cost of producing milk, the economic conditions of the other segements of agriculture, and the economic conditions in the general economy.

The Federation has developed such a dairy pricing index, and we ask that the chairman incorporate this detailed report on the formula into the committee's record.

Senator COCHRAN. It will be included in the record as an exhibit to your testimony.

Mr. KIRKPATRICK. The new dairy pricing index relates the cost that dairy farmers face today with those in a base period. The index gives a weight of 80 percent to the cash expenses of dairy farmers. Weights given to the individual factors were derived from the Cost of Production Study published by the U.S. Department of Agriculture.

The 16 individual expense factors include such things as feed, farm service expenses, cash rent, interest, and wage rates. The feed factor is more heavily weighted to represent not only the dairy farmers' production costs, but also his opportunity costs of selling some of the home grown feed commercially.

Ten percent of the index is represented by the price received for meat animals. This reflects the farmer's opportunity cost of selling dairy cows for meat rather than keeping them for milk.

The final 10 percent of the formula is represented by the Consumer Price Index. The inclusion of this factor ties milk prices to what is happening in the general economy and reflects the cost that dairy farmers and their families face in their daily living.

The resulting index derived from accumulated cost is then adjusted by a cost of production adjuster. This adjuster is tied to output per cow and reflects changes in the amount of input needed to produce 100 pounds of milk. The adjusted index is then multiplied times a base price to determine an estimated price support for the coming year.

Currently we estimate that the support price generated by this formula is expected to be between $12.60 and $12.85 per hundred for the marketing year which begins October 1, 1985. Recognizing that no formula devised can adequately reflect all of the conditions affecting supply and demand, a separate supply-demand adjuster has been constructed to fine tune the price generated by the formula.

The supply-demand adjuster is a schedule of price inceases and decreases which relate to expected net purchases of dairy products by Commodity Credit Corporation at the price level generated by the formula. The supply-demand adjuster is designed to result in CCC purchases between 3 and 5 billion pounds of milk equivalent, the level felt necessary to assure price stability and provide the U.S. Department of Agriculture with the commodities necessary to meet their program needs.

Senator **COCHRAN**. You are about to run out of time.

Mr. **KIRKPATRICK**. I am about to complete.

Senator **COCHRAN**. OK.

Mr. **KIRKPATRICK**. If the Secretary of Agriculture estimates that CCC purchases at the price generated by the formula would be less than 3 billion pounds, the supply-demand adjuster would require the support price be increased.

However, should the Secretary estimate CCC purchases above 5 billion pounds milk equivalent, the supply-demand adjuster would require the support price to be decreased. In addition to the mandatory price adjustments provided at each level of surplus, there is discretion given to the Secretary to further increase the price signal.

The support level of $12.60 to $12.85 generated by the index formula would likely generate more than 7 billion pounds of surplus during the 1985-86 marketing year. Therefore, the Secretary would be required to reduce the formula price level by 7.8 percent resulting in a downward adjustment and would arrive at a support price of $11.60 to $11.85.

The final element of the program would be an incentive penalty program that would be available for use when a significant adjustment in supply is necessary. We fully expect the operation of the dairy index and supply-demand adjuster to keep relative balance between supply and demand but feel standby authority for some incentive program should be provided in the case of extraordinary imbalance occurs between supply and demand.

It took more then 4 years to have legislation passed that would adjust the oversupply in the past. We believe that a program very similar to the program that is in effect now, the diversion program, can work successfully when accompanied by this new formula, and it would basically cap the cost to the Government at $800 million. It would provide the Government with a limit of 5 billion pounds product purchases with the industry picking up the balance. Mr.

Chairman, I would hope that you would be able to consider this as a very definite proposal for solving the dairy problems in 1985.

Senator COCHRAN. Thank you very much. Mr. Curra.

STATEMENT OF PETER W. CURRA, PRESIDENT, MAINE FARM BUREAU ASSOCIATION, AUGUSTA, ME, REPRESENTING AMERICAN FARM BUREAU FEDERATION

Mr. CURRA. Senator Cochran and members of the Senate Agriculture Committee, the American Farm Bureau Federation is the Nation's largest general farm organization with a membership now exceeding 3 million families in 48 States and Puerto Rico.[1]

Along with my wife and three children, we are dairy farmers from central Maine in the town of Knox. In addition to that I serve as president of the Maine Farm Bureau. I am on the board of directors of the American Farm Bureau Federation.

We appreciate the opportunity to appear before the Senate Agriculture Committee regarding our position on the dairy provisions of the 1985 omnibus farm legislation that will replace the Agriculture and Food Act of 1981 when it expires this year.

The 1985 farm bill is a priority issue for the Farm Bureau. Our farmer and rancher members produce virtually every type of commodity grown on a commercial basis in this country, those directly affected by farm programs and those that do not come under the authority of this legislation.

Farm Bureau dairy producers have been active in developing our dairy position and the policies adopted at our 66th annual meeting in January are a result of extensive deliberation at the county, State, and national levels of our organization.

Our policies on dairy programs are not decided exclusively by our dairy producers, but fit a broader general framework on farm programs. The dairy industry does not exist in a vacuum, and therefore must be considered within the context of its interaction with the livestock and feed sectors. Our policies are developed with that broad viewpoint as a major consideration.

Dairy producers currently face uncertain conditions in the industry, and the dairy diversion program and market conditions have contributed to reduced milk production from last year's levels and dairy product sales are up. These circumstances are a welcome relief to dairy producers, indicating that supply and demand may be in a closer balance as we approach the 1986 marketing year.

We do not project, however, that those conditions will have improved enough to avoid the two support price reductions on March 31 and June 30, 1985, as authorized under current law. We must be cautious in our outlook for the dairy industry. Some indicators are not consistent with a completely optimistic outlook for milk producers. Replacement heifers are at record levels. The milk-feed price ratio is more favorable than it was a year ago. Nearly one-fifth of the 1984 production decline can be attributed to a drop in output per cow.

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[1] See p. 462 for the prepared statement of Mr. Curra.

These conditions suggest that the production capacity of the dairy industry could easily expand under market conditions to provide incentive to produce more milk.

The Farm Bureau's proposal on the revision of the dairy program under the 1985 farm bill would adjust the support price according to market signals derived from average price history and levels of Government purchases. In this manner, market forces provide incentives between producers and consumers while Government programs give assistance for orderly marketing of dairy products.

We believe that change in agricultural policy cannot be effective without a commitment to fiscal responsibility and reduced overall Federal spending that will promote economic growth through lower interest rates, more favorable exchange rates, and increased U.S. farm exports.

Since this committee hearing is concerned specifically with the dairy element of our legislative proposal, I would like to briefly present to you the dairy proposal that we will promote in the 1985 farm bill. We recommend that the dairy purchase program be continued, but we believe that the support rate should be set at 90 percent of the average of the previous year's all milk price. The price support should be adjusted effective October 1 of each marketing year. This method of deriving an initial support rate incorporates the signals that are necessary to make the program more responsive to market conditions.

We further recommend that the support rate be adjusted if Government purchases are not in accordance with desired levels. We believe that the support price should be adjusted according to the following scale.

You have a statement from the American Farm Bureau and that scale is included in that and I will not go into that at this time in the essence of time.

In addition, if purchases are projected to exceed 7.99 billion pounds during the marketing year, the Secretary would be given discretionary authority to adjust the support price by not more than 3 percent on April 1 of the marketing year and for any subsequent 6 month period that purchases are projected to exceed that level. The combination of a market price used to set the support rate and a scale of adjustments to that support price will provide dairy producers a purchase program that responds to market signals.

The additional 3-percent adjustment in price if purchases continue to exceed 8 billion pounds is a clear signal that Government will not continue to offer increased incentives when market signals indicate that production should decrease.

This program would not require adjustments to occur in an abrupt or disruptive manner, but producers would know that production and demand must be brought into balance. We believe that these revisions to the dairy program would improve its operation for the benefit of producers and consumers alike while reducing Federal expenditures. The discretion to alter the program according to political considerations is largely removed and replaced by a support price determined by indicators of market conditions. This will allow the program to flex with market forces over time but avoid the drastic changes that can be disruptive to the industry.

The Farm Bureau looks forward to working with the Senate Agriculture Committee in the months ahead to develop a sound 1985 farm bill. I appreciate this opportunity to present Farm Bureau testimony and would be glad to respond to any questions you may have.

Senator **Cochran**. Thank you very much, Mr. Curra, for the presentation and for being here representing the Farm Bureau Federation. To the other members of the panel, thank you for your testimony.

On April 1, with this diversion program expiring, if the projection is that there will be 6 billion pounds of surplus milk, the Secretary of Agriculture is authorized under the law to reduce the support price another 50 cents. The same thing can occur in July of this year if the projected surplus is 5 billion pounds. Do you have any observations to make about the discretionary authority that the Secretary has? Is it assumed by the farmers you represent that these reductions in the support price will be made by the Secretary, and that the projections will be sufficient to trigger these reductions?

Mr. **Barker**. Mr. Chairman, we project the first one will be close enough so that the Secretary undoubtedly will project more than 6 billion pounds. On the second one there remains some question by our staff that the forecast will be above 5 billion.

Senator **Cochran**. In the summer, you start normally building up inventories because there are shortages of cream and other factors in the market. I have heard arguments from some dairy farmers and even some processors that, if the Secretary would send an early signal that he would not reduce the support price on July 1, this would help get rid of a lot of accumulated surplus and actually prevent the Government from ending up buying surplus product during that period of time.

Is that true? If so, would you explain that to the committee.

Mr. **Barker**. Mr. Chairman, we feel that—should that be the case—that those fall months, the late summer and fall turn into shorter production areas, and there would be a hesitancy on the part of the trade to accumulate the stock, so it would go automatically to the Government anticipating that reduction in price.

In fact, it would be a supporting factor if the Secretary used his authority and did not reduce it come July 1.

Senator **Cochran**. Has anybody made a study of whether or not that would actually save the Government money in the long run or cost the Government more if he did not reduce that price on July 1? Do you know if anybody has done that?

Mr. **Barker**. I do not know. I do not think we have numbers other than the general theory that would indicate trade would probably shift to holding more product if they did not anticipate a reduction in the support price.

Senator **Cochran**. Under the proposal that you make, as detailed by Mr. Kirkpatrick, you talk about capping the cost to the Government at $800 million per year. How many dairy farmers would be lost if that program were approved by the Congress and put in place? Not every dairy farmer that is in business now could stay in business under that program, could they?

Mr. **Kirkpatrick**. I believe that you could maintain dairy farmers in business because there is an incentive to reduce production rather than to produce it. On the other hand, it would cause some financial stress bringing the market balancing function into play.

Senator **Cochran**. Mr. Curra, any reaction?

Mr. **Curra**. I would like to respond to the first question. I feel a little safer with that. I think most of us have conditioned ourselves to the decrease on April 1 where our feelings are tempered a bit because the diversion payments end or the CCC 50 cent assessment ends at that time. That is going to be a wash for quite a few of us.

The one later, I guess we are hoping that it will not have to happen, but we are thinking that it may on July 1, but hoping not.

Senator **Cochran**. Can dairy farmers stay in business with a support level of $11.60? That is what it would be brought down to. Are we going to have any dairy farmers left at $11.60?

Mr. **Curra**. We are a hardy bunch. There will be a few, I guess.

Senator **Cochran**. We have brought the support level down from $13.10 when the program started to $11.60. That is a fairly substantial drop, is it not, and production costs have not come down commensurate with that, have they?

Mr. **Curra**. Some production costs have decreased.

Senator **Cochran**. What about the productivity gains that could be realized with new technologies that are being discussed now? Earlier this week there was a hearing looking into the products of research. They were talking about bovine implants and other techniques that could end up increasing the productivity of milk cows by 40 percent by at the end of the next decade; in 15 years we could see a 40-percent increase in productivity. What impact is that going to have on the industry?

Mr. **Curra**. I do not think there is a government or nongovernmental program anywhere that could deal with that kind of an increase in production. That is not going to happen in every dairy operation across the country, obviously. It will happen in some. We are going to have to have a lot of new, imaginative approaches that parallel some of the new technological changes that are coming.

Senator **Cochran**. Senator Melcher?

Senator **Melcher**. I have no questions.

Senator **Cochran**. Senator Heflin?

Senator **Heflin**. Yesterday I brought up two issues. I invite the same response from your organizations as I extended to one organization and also to the livestock division of the American Farm Bureau Federation.

One deals with the problem of how do we increase export sales. We have got to increase export sales. Your area, of course, is one that should be involved in this.

The other addresses the proposed tax simplification bills or proposals, that they will affect farmers in different ways. There are certain types of treatment given to farmers under present tax law, and there would be substantial changes under these proposals.

I made a speech recently and had my staff call practically all of the national farm organizations and none of them had bothered to sit down and study what these proposals would do to the average farmer. I was rather shocked at that lackadasical attitude on the part of national farm organizations relative to tax simplification, so I want to invite the national farm organizations to submit to us so we will know the impact on the average farmer.

I would like to ask this group about the diversion program implemented in 1983, their opinions of how it has operated and their projection for the future.

Mr. **Barker**. Senator, we believe a type of extension of the diversion program with a new recognition of cost factors would adequately meet the needs of the dairy industry and stabilize the price to consumers and also would be less of a shock in this transition period. It would place a cap or a ceiling, as Mr. Kirkpatrick indicated, on Government expenditures, and yet give some stability to the industry.

So with some discretion given to the Secretary with more time involved enlisting in the program, so to speak, Congress will be able to analyze the program better and we would avoid some of the apparent problems where there was oversubscription in some areas in the country to the previous diversion. We believe there would be a wider acceptance to the levels we advocate. I am not sure that is directly responsive to what you have in mind.

Mr. **Curra**. The diversion program, I have been a contributor to the diversion program. I chose not to decrease my production because we have been on a quota system with our dairy. Our production had not increased since 1973.

As a result of that we have made a contribution as a result of the diversion program. If there is to be a new diversion program, the important part is how would that be funded? Do we continue to ask dairy producers to fund a program to reduce production? I for one, quite honestly, think that for those of us who have a history of not increasing production for the last 5, 6, or 7 years ought not to have to fund that program. I am not sure my operation can fund a dairy diversion program much longer.

Had I increased, I would have perhaps more gladly be willing to fund that. So I think any new diversion program must take into consideration those individuals who increased for the last 5, 6, or 7 years and perhaps those folks need to pay the major portion of funding the diversion program.

Senator **Heflin**. My people in Alabama, although a deficiency State, not only on diversion, but any type of an assessment, are called upon to pay for a program in which they do not need to participate. There is a howl, a hue, and a cry among Alabama dairy farmers.

Senator **Cochran**. Thank you, Senator. Senator Boschwitz.

Senator **Boschwitz**. Mr. Chairman, I note that we have 15 additional witnesses and I would like to hear as many of them as I can. I hope, if I may say so respectfully, that the witnesses will almost limit their comments to what the 1985 farm bill should contain. We have had a very interesting background on dairy and dairy production this morning, but input on the 1985 farm bill is really what I have come to hear.

I have to review your program of the National Milk Producers Federation. Let me just ask an offhanded question. I hope that Pat Healy has had a hand in making this up. I know he is no longer with you, but he is a cagey old dog, and he certainly knows more about the subject than I, and I have a great respect for him.

In any of your plans, are the removals by the CCC at a price—at the same price, at market price or at a lower price?

Mr. **Barker**. Market price.

Senator **Boschwitz**. I think one of the real deficiencies of the program is the fact that there is no incentive really to promote the dairy as long as Uncle Sam will buy everything that is produced at the market price. As a result, while there are some incentives—because the prices could go up and down slightly—I think the incentives might be in hand today if the removal price were lower.

But we are indeed interested in hearing what the witnesses feel should be in the 1985 farm bill. Thank you.

Senator **Cochran**. Thank you very much, Senator. Thank you, panelists. We appreciate your being here and helping us this morning.

Our next panel of witnesses includes Buckey Jones, a member of the board of directors of Dairymen, Inc., from Smithdale, MS, and Buddy Buckner, who is a member of the dairy division of the Alabama Farm Bureau. I hope you will come forward. We have copies of your statements, which will be a part of the record. We ask you to make whatever summary comments you choose to make in presenting your points of view to the committee. Welcome. I am glad you are here, particularly Buckey Jones, who is my constituent. We have had hearings before where Mr. Jones was a witness, and he always does an outstanding job. Thank you for being here.

STATEMENT OF BUCKEY JONES, MEMBER, BOARD OF DIRECTORS, DAIRYMEN, INC.

Mr. **Jones**. Thank you, Senator, for allowing me to be a part of this hearing.

I might note, Senator Boschwitz, that as slow as we southerners talk in 5 minutes we do not get a lot of facts out on the table. [Laughter.]

Senator **Boschwitz**. Are you the gentleman from Mississippi or Alabama? You all sound the same to me. [Laughter.]

Mr. **Jones**. I am from Mississippi. I am Buckey Jones, dairy farmer from Smithdale, MI. I am a member of the corporate board of Dairymen, Inc. We are also members of National Milk. Our cooperative covers some 15 Southeastern States and we represent some 7,000 dairy farmer members.[1]

A little background: Senator Cochran and I were here some 2 years ago and I was voicing my opinion of some of the things we were about to do, such as the diversion program, such as assessment. Our position has not changed a lot since that time. We were opposed to the assessment. We were opposed to the diversion program, and we still feel that is very detrimental to our area as well as detrimental to the entire dairy industry. We also oppose quotas and base plans as such.

To give me some idea that my fears some 2 years ago were unfounded, that we did have legitimate complaints and that we did have maybe a little insight into what was to happen down the road. My testimony then indicated that the Deep South would in fact participate rather heavily in the diversion program because of economics more than anything else.

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[1] See p. 463 for the prepared statement of Mr. Jones.

Even though we did have deficit areas, as Senator Heflin has pointed out, we did impact and we have exhibits here to show us that. My home State of Mississippi participated in the diversion program to the extent of some 10 percent of the product, and yet we are a deficit State and it caused some tremendous gyrations in the market.

I have three objectives I would like to touch on. First is to communicate the facts and we have documents here, and exhibits, that will show that the dairy diversion program has in fact caused tremendous problems in the South.

Second, I wish to relate to you the unique nature of the Southeastern dairy industry, and we do have some unique qualities.

And, finally, our concerns and recommendations for the dairy program which we believe recognizes the national surplus problem while treating all milk producers fairly and equitably.

I wish to present several exhibits which I believe illustrate the facts regarding milk production in the Southeast, and exhibit 2 details the milk diversion program participation in the Southeast, as I pointed out previously. We did have almost, to just summarize for the second time, we did have twice as much participation in the Southeast as the rest of the Nation.

It appears that those who clamored most for the diversion program participated the least, and those of us who opposed it and it is pure economics that is the reason for it. The bottom line, Mr. Chairman, the Southeast participated to the tune of 9 percent where other areas participated only 5.5 percent. And we feel that these inequities in the program have been deterimental and we should improve this.

Our next would be exhibit 3, entitled "U.S. Milk Production," and it compares figures of 1983 and 1984 and those available for 1985. And all these figures indicate that production is down tremendously in the South where consumption is up. In other words, on the average, we still have a national dairy surplus situation, but in the South we have a tremendous shortage, especially at different times of the year in milk production.

If we treat the whole country on the average, sure, we have a surplus problem, but in the South, in my area we have a tremendous problem just meeting the needs of our people.

Exhibits 5 and 6, Southeastern Federal milk order and percent class I utilization of producer milk pool in 12 Southeastern orders shows a major drop in production pool with increasing class I sales. For instance in Federal Order 1094, which encompasses Mississippi and the pastures of Louisiana, Federal Order 94 was a very loosely written Federal order and it has always been a dumping ground for any surplus milk throughout the Southeast. Federal Order 94, in January had a 94 percent class I utilization, which is totally unheard of and you just cannot live with a class I utilization like that.

Not only do you cause many problems within your cooperatives; you cause problems for your consumers. For instance, at a dairy in

Hattiesburg, MI the manager told me he pays higher than $19.90 for milk brought out of the Midwest. Why did he have to pay this much? Well, he paid the class I price up there plus $2.50 give up charge plus the freight. Therefore, there is an increase in the cost of milk for our consumers in the South even much more than what it normally would have been if we had encouraged our producers to produce it locally.

We think these figures show that we do have some problems there, and it shows that we do have some decreases in production patterns that we must address. The effect of continuing decrease in production and continuing increases in milk going class I has caused some tremendous dislocations, and we have charts here to prove and show that milk receipts and milk pools within orders and milk coming not only from one order or another in the Southeast but out of the area has increased to the point where in November 1984 it was 353 increased milk movement within Federal orders from the previous year.

Some of us have bragged to the point that the milk diversion program is having a great success due to the reduced Government costs. The facts and figures I have testified to today only strengthen the argument I presented to you 2 years ago. The program has cut production. Those figures are readily available. But it has cut it in the wrong place. We did not need to cut production in high class I utilization markets where most of all our milk was going to the fluid milk market and very, very little going to the Government program.

This deficit position has certainly increased over the years of the diversion program and probably will reinforce inequities in such plans in the future.

As I said, on the average you could relate the milk problem to the man who is standing with one foot in a bed of coals and the other on a block of ice; on the average, he was very comfortable. [Laughter.]

When you get down to it, the problem involving milk movement to that extent certainly produced some very uncomfortable feelings as the man I related to.

To go a little further, I would like to address our current Federal milk order program. The position that the Federal order system was designed to obtain a supply of milk for fluid use is clearly stated by the Agricultural Marketing Service, in the U.S. Department of Agriculture brochure, "Questions and Answers on Federal Milk Marketing Orders." The 1976 version clearly states, "Federal orders are primarily instruments for stabilizing market conditions for fluid milk, and for this reason they apply to milk which is produced under sanitary inspection for sale in fluid form."

Thus, an adequate supply for fluid milk is clearly the objective of the Federal order system.

The Agricultural Adjustment Act of 1949, which set in place the price support program, was designed to maintain an adequate supply of milk to meet current needs and future needs. Clearly the system that is allowed the extreme shortages that we have experienced in the southeast and possible other areas shows that the program has not worked to the point that it should have, and maybe it needs to show some more flexibility. It only recognizes that we have a national surplus and does not recognize that you do have some inequities within the program.

Milk for fluid use is primarily what we produce for in the Southeast and that is primarily what the Federal order system is designed to do. We believe that properly used these two programs, the Federal order system plus the price support system can and will work. We think it is the most simple way to do it, and we think it will work if we just can get our people within the system to address the problems that we have to really communicate with one another that the differentials that we have are not adequate and must be changed.

I think in the long run if we fail to address the fact that there are differences within regions, the long-term problems will only become more acute.

On a temporary basis the Agriculture Marketing Service did grant a 20 cent increase in class I differentials in the South, which ended in February, and I would like to say that this 20 cent increase in differential certainly helped in order to move some of the milk that had to be moved in order that the customers could be supplied.

Another problem is the class I prices should not move from month to month on the basis of changes in price and what happens in Minnesota and Wisconsin.

We believe we have two good programs that when properly operated and coordinated can effectively meet the needs of the industry. The price support program can be used to provide a basic safety net for all milk. The Federal order program can be used to deal with regional and local differences so that milk is priced to attract an adequate supply for fluid use. The programs only need to be so administered.

Finally, I would like to briefly outline the Dairymen's position on price supports in the 1985 farm bill. The Milk Support Price Program worked well in the early years and most of all of us have attested to that fact before.

Things began to get out of kilter in 1980. The support program has become a market rather than a support in many areas, and we think this is wrong and we think we need to address that situation.

The current farm bill will expire in 1985 and many concepts for a new support program are being offered. Our concept of future milk price supports was approved by the Dairymen board of directors in March 1984, and this program is:

One, the basic support price mover should be dairy specific, and this has been mentioned in the National Milk Federations Program. The program needs a price mover that relates more specifically to the conditions related to produce milk.

Two, the program should be market oriented with a safety net and should include a trigger mechanism based on Government purchases.

Three, the price support should recognize changes in productivity which could be measured by proxy such as production per cow.

As was mentioned earlier, Dr. Harold Harris of Princeton University testified just a few days ago that new technology would show some tremendous advances in production per cow and thus possibly lower the cost of production. All of these things need to be addressed and need to be pulled into the system that will measure differences in cost of production.

Four, the price support should use only price to control supply with no national quotas, diversion payments, and no assessments.

As I stated, 2 years ago if $10 pays for a diversion program, then I would certainly jump on it, and I did because when you get $13.5 milk and you get $10 for not producing it, it is certainly an economic advantage to you to participate even though it is to the detriment of the entire industry in your area.

Five, the price support program should allow some discretion on the part of the Secretary of Agriculture. We believe that you should have some form of import controls where the United States would not become the price supporter and dumping grounds for the dairy production of the entire world. We believe that this should be a focal point and should be administered on a day-to-day basis.

One final point, dairying is an integral part of the total U.S. agricultural industry. I might say that the agricultural industry is still the most—the largest industry within the United States. It employs some 23 million people indirectly. It accounts for some 22 percent of the gross national product. We are a tremendous industry and our whole industry is in economic depression, and I think we should in fact look at that as a whole rather than just in one small segment of our total industry.

I might also say that we strongly support the implementation of the section 416 program in wheat and dairy products and we strongly believe that this is one thing we can do to show the world that we do care.

We also believe that we can expand programs for what we call our semipermanent fresh milk to areas where it can and will use it to the best of their ability to improve the nutritional values of their people's diet.

You know, all of us have been exposed and subjected to the horrors of the African situation where starvation and hunger is an everyday thing. Somewhere in our wisdom, sir, with the situation and the excess capacity that we have in the United States, somewhere in our wisdom there is a common ground whereby we can alleviate some of these problems worldwide.

I recognize fully that a need and a market are two different things. But somewhere in our wisdom there is a common ground where we can and will look to these countries that we can be our brother's keeper, so to speak, because I believe and I know that my cooperative believes that somewhere that all of this in the end that we must be citizens of the world rather than just citizens of our small and segmented industry.

If agricultural exports cannot be expanded to the point that farming shares in the prosperity of this country, and I think it must, then we need to look hard and seriously to a program that will adjust farm output to our domestic markets. Otherwise, a depressed agriculture will lead this country into more serious economic problems than we experience today.

I still believe that if the United States as a whole is to be economically sound and to have a good, strong gross national product and a growing economy that agriculture must share in that expansion.

At this point in time we certainly are not sharing in that expansion. Just 10 years ago, if I might refresh the memories of those who may have forgot, just 10 years ago we in agriculture were being patted on the back and lauded to the high heavens for our contribution to the trade deficit because agriculture almost offset the entire problem that we had with imported oil.

So because of the strong dollar, because of deficits, because of higher interest rates today agriculture is on the ropes. Your committee, sir, can help us negate some of those problems. I thank you for your allowing me to be part of this hearing.

Senator COCHRAN. Thank you, Mr. Jones. Mr. Buddy Buckner.

STATEMENT OF E.L. BUCKNER, MEMBER, DAIRY DIVISION, ALABAMA FARM BUREAU FEDERATION

Mr. BUCKNER. Thank you, Mr. Chairman. I am glad to be here today. I am Buddy Buckner. I represent the dairy division of the Alabama Farm Bureau Federation. Since 1952 I have owned and operated a dairy farm near Oneonta, AL.

I have been active in dairy farm organizations in Alabama and the Southeast for many years. I have served in many capacities of the dairy cooperative including director and president.

Mr. Chairman, although the dairy industry continues to have its problems, the price support and the Federal milk order regulatory programs are good and need to be retained.

However, improvement needs to be made in these programs to help solve national and regional dairy problems. These needed programs are two points that I am going to outline: One, permit the support price to be adjusted based on a supply and demand adjuster; two, by mandate of law recognize regional supply and demand differences and permit the Federal milk order system to operate to reflect the regional differences.

I have a lengthy statement and I am just going to skip through and just hit some of the high spots and save some time.[1]

Senator COCHRAN. Thank you very much.

Mr. BUCKNER. I believe the main reason for the overproduction in the United States today and for the past several years is support prices have been set at higher levels for too long a time to stimulate overproduction of milk for manufacturing use.

Support prices should be adjusted based on a trigger mechanism. Price signals in the marketplace should come from the commercial marketplace.

I will go to the No. 2 point: Regional differences in the economic factors affecting milk supplies and milk demand are significant and should be recognized in the Federal milk order program. The recent market situation that has developed in the Southeast markets is an excellent example of regional differences that need to be resolved for the benefit of milk producer cooperatives and the consuming public.

In administering Federal milk orders the Secretary of Agriculture is responsible by law to consider economic conditions which affect supply and demand for milk, fix prices as he finds will reflect such factors and ensure a sufficient quantity of pure and wholesome milk.

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[1] See p. 469 for the prepared statement of Mr. Buckner.

In the Southeast the Federal order class I prices are not achieving that goal.

The class I differentials are inadequate and should be increased or their formula revised. Milk supplies within 11 market areas in the Southeast declined about 10 percent between 1983 and 1984. To acquire their milk and bring it to the Southeast market premium prices have been paid to bid the milk away from the local use. The prices paid for the supplemental milk were the Federal order class I price plus premiums to bid away the milk from the existing market. Premiums paid for these surplus supplies have been reported as much as $2 per hundredweight. In addition, transportation costs must be paid to move the milk to the Southern markets.

The cost of importing supplementary supplies was more than $4.50 per hundred pounds above Federal order class I prices in the mid-South and from $3.21 to $4 over the announced class I price in the Atlanta and Montgomery markets.

The attached tables, which I will not go into unless there are questions, on pages 6 and 7 shows comparison between cost of imported milk supplies and the announced class I price and additional cost to local producers and consumers from dependency on imported milk supplies.

The inadequacy of Federal milk order prices in the region has already been acknowledged by the Dairy Division of the USDA with the issuance of an emergency 20 cent increase in class I differentials.

We need you to mandate by law that the provisions of the Federal order be carried out to increase hauling differentials in the Southeast.

In conclusion, Southeastern milk producers, regardless of the market location or affiliation, recognize the need for class I price adjustments and alignment throughout our region. If class I price differentials in the Southeast in Federal order markets were adjusted to reflect current transportation costs, consumers would benefit more through relatively lower retail prices and milk quality improvement than if the markets were substantially dependent on distant supply sources.

We are requesting an appeal for a permanent solution under the law in the 1985 Farm Act which reflects supply and demand in our regional market.

Senator COCHRAN. Thank you, Mr. Buckner, for your presentation. I am going to withhold questions that I have and recognize other Senators at this time. Senator Melcher.

Senator MELCHER. I have no questions.

Senator COCHRAN. Senator Heflin.

Senator HEFLIN. Well, we are particularly pleased to have Buddy Buckner here. He is a long-time friend of mine, and he is an outstanding dairy farmer and has been very active in the Alabama Farm Bureau speaking for their various needs. He is also the chairman of the national affairs committee.

I am delighted that both Mr. Jones and Mr. Buckner brought out the distinctive differences that exist in other parts of the country relative to milk. Mr. Jones, I think you called it a give up charge of

$2.50, which as I gather is a premium that is paid to get milk from a surplus State to go to a deficiency State.

How does that come about?

Mr. **Jones**. Well, you may say that is the market at work because they knew we had to have milk for class I use and those who had extra milk would charge that premium over the class I price in, say, Minnesota or Wisconsin where you have to buy the milk from them rather than them putting it in cheese or powder or putting it through their plant. They said they can make money putting it through their plant. So, thus, if you wanted the milk you had to pay the premium in order to pull it out of their plant.

They want to make money on it regardless, and I can understand that point of view because if I were in that position I would probably want to charge more for it, too, to get all I could for my dairy farm.

Senator **Heflin**. But they would charge $2.50 less if the person within that State was a purchaser. Is that what would happen?

Mr. **Jones**. That is correct.

Senator **Heflin**. All right. Mr. Buckner, do you want to add anything?

Mr. **Buckner**. Well, I thought you said they were charging $2.50 less than those people were receiving it. They were charging $2.50 more.

Senator **Heflin**. To the out of State.

Mr. **Buckner**. Right.

Senator **Heflin**. It seems to me like there is a little discrimination. You might consider a lawsuit on equal protection under the law on that.

Mr. **Jones**. That is the market at work.

Senator **Heflin**. Well, I know. If you have a short supply, and you have to have it, you have to pay what you have to get milk to supply your customers.

Mr. **Jones**. I did not not say it was just; I said it is the way it works.

Senator **Heflin**. Well, the courts are sometimes designed to alleviate some of these problems that arise out of greed.

Mr. **Jones**. We try not to use that word in Mississippi too much.

Senator **Heflin**. Now, let me just point out there is a need; I hate to continue this, but I think there are going to have to be some changes made in the law to allow for these matters pertaining to these things, and I think the remedy is here rather than in the courts.

Now, Buckner, I noted in your testimony you give the transportation charges, too. Are these updated over a period of time? What happens relative to that?

Mr. **Buckner**. These costs here were supplied to me by Southern Milk Sales Cooperative, and it is what they were actually paying back in October; the differences between the differential and the overall, that is what the freight cost them, that much per hundredweight to get it to that area. If you really want to sink that question home, look over on the table, table I, and over there you will see the numerous cities. It will go to Birmingham, AL. You are familiar with that. You will see you have a $19.22 cost of delivering milk. That is what that milk was delivered for in Birmingham, AL, that was bought in one of the distant markets. And our class I price at that time was $15.47. So that was $3.77 more or 33 cents a gallon more than we were receiving in Alabama.

Senator COCHRAN. Senator Leahy.

Senator LEAHY. Mr. Chairman, I would say that I am glad to see Mr. Jones here again. He has testified before. I have been down in Mississippi with him, and I might say, Mr. Jones, you are very fortunate to have Senator Cochran.

Mr. JONES. We think so, too, and we showed it in the last election.

Senator LEAHY. I know you did. [Laughter.]

That is the best way to show it. But I might say coming from the other side of the aisle, you are lucky to have him watching out for you up here.

Senator COCHRAN. Thank you, Senator. Senator McConnell.

Senator LEAHY. I might say the same thing about Senator Heflin. Mr. Buckner, I want you to know, when the Judge comes in here he keeps us in line.

Mr. BUCKNER. Well, he got a pretty good vote last time, too.

Senator LEAHY. I know.

Senator COCHRAN. Senator McConnell has joined us. We recognize him.

Senator MCCONNELL. Thank you, Mr. Chairman. My State of Kentucky is also, as you all know, a milk deficit State and Kentucky has the largest number of participants in the Dairy Diversion Program of any State in the Dairymen, Inc. milk marketing area. I am just wondering from either of you gentlemen why you think farmers in our region are more anxious to participate in the Diversion Program than farmers anywhere else in the country.

Mr. BUCKNER. Well, there are several reasons, I think, but one of them was economics. I think with the cost of production—we have a little higher cost of production in the Southeast than they do in most other places in the United States. I think we were more ready for a diversion program. That is the reason we had a bigger signup in the Southeast than anywhere else. That does not necessarily mean we got rid of more milk; we had a higher percentage of farmers that signed up.

Mr. JONES. I really think there are two things that contribute more than anything else. One of the things, producers in the South, farmers in the South have been accustomed to cotton programs for 40 years. They have worked with the ASC office for years. We are familiar with them. We have not shared the fear of the ASC programs as many people did in other areas because they were not familiar with them as we were. The second thing is the USDA puts out costs of production figures which would show Florida to be the highest cost of production area in the United States, and my area of south Mississippi, south Louisiana is second. Cost of production certainly entered into it more than anything else, in my opinion.

Senator COCHRAN. Senator Boschwitz.

Senator BOSCHWITZ. No questions, Mr. Chairman.

Senator COCHRAN. Thank you very much. We appreciate your being a part of the hearing. You have done an excellent job. Thank you for coming.

Our next panel includes Linwood Tipton, who is executive vice president of the Milk Industry Foundation and International Association of Ice Cream Manufacturers here in Washington. He is accompanied by Howard M. Dean, president of Dean Foods Co. of Franklin Park, IL; Siert F. Riepma, president of the National Association of Margarine Manufacturers from Washington; and Ellen Haas, who is executive director of Public Voice here in Washington, DC.

We welcome each of you to the hearing. We appreciate your being here. Mr. Tipton, you may proceed.

Mr. Tipton. Thank you very much, Mr. Chairman. If it is agreeable with you, I would like fo: Mr. Howard Dean, the president of Dean Foods Co. in Chicago to make his statement first.

Senator Cochran. That will be fine. Mr. Dean, you may proceed.

STATEMENT OF HOWARD M. DEAN, PRESIDENT, DEAN FOODS CO., FRANKLIN PARK, IL

Mr. Dean. Thank you, Senator. I am Howard Dean.[1] I am president of Dean Foods Co. in Franklin Park, IL. We process food milk products. We make ice cream products and a number of other products. But of our $923 million in sales last year 75 percent were fluid milk products. So we have a good representation in 15 different States where we have manufacturing facilities. We employ about 4,500 people in those 15 States. We supply most of our dairy products on a nationwide basis all the way from Florida to New Mexico and up into the northeast both in our brand and unbranded products.

In addition to being involved in Dean Foods Co., I am also associated with Mr. Tipton in the Milk Industry Foundation. I am chairman of a dairy policy committee that is attempting to put together some guidelines that we would like to see in the 1985 farm bill. There are currently 40 companies that are involved in this committee, which represent companies like ourselves, who are fairly large in the manufacturing business, all the way down to the small independent producer and it also includes many of the chain stores that have their own dairy operations throughout the United States.

Our dairy policy committee has formulated some guidelines and objectives that we think should be included in the 1985 farm bill. We seek a dairy program that discourages a buildup of Government stocks, one that prevents Government giveaways from interfering with commercial sales, and one that does not distort the market with diversion programs, production quotas, or other similar control programs.

After I make a few more comments, Mr. Tipton will elaborate on some of these.

We at Dean Foods are very interested in the legislation that is involved in the 1985 farm bill. Monetarily for every 10-cent increase in the hundredweight of milk, it affects us $3.2 million. So we do use a lot of raw milk and it is all processed into finished products. We sell nothing to the Government. We do not sell any Government surplus products.

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[1] See p. 471 for the prepared statement of Mr. Dean.

We manufacture a full line of fresh products including homogenized milk, low fat milk, skim milk, the butterfats, cottage cheese, yogurts, everything that you would find in a chain store in the dairy case.

We also package ice cream not only for our own use but for people such as Baskin Robbins. The main ingredient of raw milk is 75 percent of our sales. Some people over the years have questioned the reductions in the Price Support Program, if they are passed on to the consumer, and I would have to say today that, yes, they are passed on. It might take awhile to get to the consumer, but there are many other costs that offset some of the reductions that we try to pass on.

To be a survivor as a processor in the dairy business you have to be a low-cost producer in the market. I think anybody else that is in the processing business like ourselves realize that you have to be a low-cost producer or you are not going to survive. It is too competitive.

We have been willing in our company to reinvest substantial funds over the years back into our plants and we think we have as efficient plants as anybody else in the industry. This is probably one of the reasons we have been able to survive where over the years many other dairy companies and processors get out of the business.

The problem as we see it is you always cannot see the reduction in the raw milk price as passed on to the consumer. Right now about 55 percent of the total cost that the consumer pays for milk in the store is raw milk. There is another 45 percent of that cost that is involved in items such as processing, packaging, transportation, advertising, the retailing costs, and the margins both from our end and from the retailing end of the business.

So there are a lot of other factors involved, and so when prices are either increased or decreased, you do not see the end result at the consumer level because of all these other factors and costs that have to be taken into consideration.

Last year a 3.5 million pound increase in commercial dairy product sales is evidence that the lower support price means increased sales. Commercial dairy products increased by approximately 3 percent in the last marketing year compared to a year earlier.

That increase is a direct result of the reduced and stable raw milk prices that we have had over the last 2½ years.

With no increase in the milk support price in the past 3 years the market has responded in a way that should continue to increase our sales. It is significant to note that the retail price index for dairy products over the last 3 years only increased by 1.6 percent since 1981. In the prior 5 years it increased 8.3 percent when we had those price increases in the support price going up two times a year for a number of years there. It is obvious that the consumers want a lower price, and when there is a lower price consumers are going to increase their consumption. We have seen it this year; in fact, this year is the first year in the last 5 years where there has been an increase in the consumption of dairy products at the retail level.

The benefits of a stable or reduced Price Support Program cannot be passed on to consumers when programs like the Milk Diversion Program are in place. Last year—and I am kind of picking up on the testimony that was given by Mr. Jones and Mr. Buckner just prior to myself—you saw there was an increase in butter prices last year; there was an increase in cheese prices although there was a Diversion Program. These increases were attributed to the Paid Diversion Program which caused a tremendous misallocation of milk within the United States.

In a situation where we are involved, we have dairies in Florida, in Louisville, and also up in the Midwest; and we saw when the South and the East was short of milk, which they were, it was a terrible situation. The dairies in the Southeast, including ourselves in Florida, had to come up into the Midwest and buy raw milk.

At that time when we came up to the Midwest from Florida to buy milk through our co-ops we had to pay a higher price, thereby driving the price up in the Midwest. As we did in the Midwest for Chicago and Indiana, and Michigan markets, we had to pay a higher price at that time because we were competing with the southern co-ops who were coming up to buy milk. So we ended up paying higher prices in the Midwest to get the milk that we normally would have paid a lower price.

The sad irony of this is that while we were having difficulty finding milk for bottling purposes, the butter, powder, and cheese plants in the Midwest were still selling surplus products to the Government at that time.

In August 1984 the CCC purchased 1.6 billion pounds of butter, a little over 26 million pounds of cheese, and a little over 52 million pounds of nonfat dry milk at the same time as we were paying higher premiums to get fluid milk.

The Milk Diversion Program did not significantly reduce milk production. It simply misallocated supplies by forcing farmers to dump their milk or feed it to animals to qualify for the Diversion Payment Program. Therefore, in 1984 there was about 4.2 billion pounds of milk fed on the farms to cattle or dumped on the farms compared to 2.4 the previous year; 1.8 billion pounds of milk more was dumped at the farm level than had been done in the past.

Farmers did not significantly reduce production. They simply kept it off the market to qualify for the Diversion Program.

I would like to finish my comments by saying that we got into the Surplus Program by putting too high a price on the support levels and we feel the only way to get out of it is to reduce those prices where production will more nearly equal demand. Let us not complicate things by imposing on the dairy industry diversion programs, quotas, base plans, or any other complicated schemes being discussed. Last year's performance with the Diversion Program show that it really did not significantly reduce production.

Farmers, like consumers, are smart. Farmers will reduce production if support prices drop and consumers will increase purchases.

Let us leave the price and market forces free to dictate how much milk should be produced and how much consumers will buy.

With that I would like to conclude my comments, and I thank you, Mr. Chairman, for inviting me to testify today.

Senator COCHRAN. Thank you, Mr. Dean. Mr. Tipton.

STATEMENT OF E. LINWOOD TIPTON, EXECUTIVE VICE PRESIDENT, MILK INDUSTRY FOUNDATION AND INTERNATIONAL ASSOCIATION OF ICE CREAM MANUFACTURERS

Mr. TIPTON. Thank you very much, Mr. Chairman. I have a rather lengthy statement which I gather you will copy into the record.[1]

Senator COCHRAN. All of these statements will be in the record in their entirety.

Mr. TIPTON. Thank you. I will try to highlight it very briefly.

I would like to point out that the association of the Milk Foundation and the International Association of Ice Cream Manufacturers purchase about two-thirds of all of the milk that is consumed in the United States. The associations do not do that, our members do that, in fact, but our members use about two-thirds of all of the milk that is consumed in the United States. We favor the continuation of a viable support price program. We think that it must set reasonable prices. They must bring forth an adequate supply. That is certainly in our interest, the consumers' interest and the producer.

However, we are concerned about setting support prices which in effect bring forth excessive supplies, and we think that has been a problem in the last few years. I would like to capsulize the kind of program that we would propose for the forthcoming year. Then I will discuss it more specifically later on.

We think it is extremely important that the Government never get into the position of having surpluses significant enough that they must give them away and replace commercial sales. That is a very important tenent of our position. That has occurred and is continuing to occur, and we think it needs to be stopped.

To avoid that we would propose that there be a requirement that the Secretary of Agriculture mandatorily reduce the support price whenever CCC acquisitions are anticipated to exceed a specified level.

Likewise, we would propose that he be mandatorily required to increase the price when CCC acquisitions fall below a minimum level.

We would also strongly oppose any kind of a diversion or quota programs of any kind even on a standby basis.

The dairy price support program, in our opinion, has worked quite well for the past 36 years. It really began to get into trouble in 1980 and 1984. For the 1970 to 1979 period the CCC bought about 3.8 billion pounds of milk product and that is not an excessive amount for them to have acquired, at an average cost of about $335 million. So our feeling was that during those periods it worked reasonably well.

However, in 1980 through 1984 it has not worked at all in our opinion or not worked properly in our opinion. During that period the Government has averaged purchasing 12 billion pounds with 1 year occurring nearly 17 billion pounds. The average net cost has been $1.9 billion during that period, and there have been some years when the actual acquisition cost was nearly $3 billion, but there were offsetting credits to bring it back down. Some of those offsetting credits provided very concessional sales and price reductions in various ways.

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[1] See p. 473 for the prepared statement of Mr. Tipton.

We anticipate that this year or I guess the Government is anticipating that this year they will buy about 9 billion pounds and the cost will be around $1.5 billion. Last year the cost was about $1.5 billion, and if you take that $1.5 billion which was the actual net cost to the Treasury and spread it over the 200,000 commercial dairy farms in the United States, that amounts to about $7,500 a farm. If you were to add to that an amount representing what we think is holding the price higher than it should be held—a lot of people last year thought that the price ought to have been reduced about $1.50. Instead of doing that the price was reduced by 50 cents, and the diversion program was put into place.

If you add to that the other $1 reduction that we think probably should have occurred last year instead of the diversion program, that would mean that consumers paid about another $1.4 billion in direct costs in higher prices that they paid for the products at the shelf.

If you put those two together then the 200,000 commercial dairy farms got about $14,500 in the form of a subsidy out of the price support program last year. This has meant that prices have been considerably too high. I have a hard time with billions of dollars and this kind of thing. If you put it onto a per hundredweight basis or even onto a gallon of milk, that same subsidy on a gallon of milk would have been about 18 cents a gallon. On a pound of cheese it would have been about 21 cents a pound of cheese and 23 cents a pound of butter.

So it has significant costs, both direct and indirect. It looks to us like that those significant costs are likely to continue for some period of time unless something is done. There are a lot of people who had made the tenuous link between the reduction in CCC acquisitions and the diversion program and have asserted that the diversion program has worked.

But the fact of the matter is that there was a drop last year of about 6.2 billion pounds in CCC acquisitions; 56 percent of that decrease was attributable to the increase in consumption. There was an increase in consumption of about 3.5 billion pounds.

Only about 25 percent of the drop was attributable to a decrease in production. There was another big factor that affected it, and that was an increase in the amount of milk that was either fed or dumped on the farms. That nearly doubled last year under the diversion program as farmers found it necessary in order to comply with their contracts to actually not market the milk but to get rid of it prior to marketing. Some of that was fed to other animals, and some of it was whatever method they used to dispose of it so that they did not have to market it. But that accounted for about 2 billion pounds of reduction. That accounted for more than the drop in production. With the number of replacement heifers that are on hand there is not much doubt in our opinion that the surplus problem is going to continue.

What do we think ought to happen? We think there ought to be a very simple program instead of some of the complicated techniques that we have attempted for the last several years. Seven times in the last 4 years the Congress has in fact passed some piece of dairy legislation.

There were three of those that were rather significant changes to the dairy price support program and a fourth that was fairly significant. The others were of a more technical nature. But there have been some major changes. We think it is time that we got some kind of a program that will work and we think the one that is obvious is the one that has been avoided for quite a period of time, and that is to simply adjust the support price itself instead of going to other kinds of techniques.

Specifically, we would propose that the Secretary be required to reduce the support price by 50 cents when CCC acquisitions exceed 4 billion pounds. That would be a cost of about $750 million, $750 to $800 million that would be associated with purchasing about 4 billion pounds of milk.

We would also suggest that the Secretary be required to increase the support price when CCC acquisitions fall below 2 billion pounds. The policy would be or the direction would be that the Secretary should keep CCC acquisitions between 2 billion and 4 billion pounds and he should establish a support price that would accomplish that objective.

We would also propose that the price drops that are currently scheduled under the current law go into effect, and that would mean that in July the price would be $11.60, and that $11.60 price be maintained through October of 1986. That would be 15 months at that price. That would give us a period of time to see what the net effect of some of these changes are, and then at that point, in October of 1986, the Secretary would take a look at what he anticipated purchases to be in the forthcoming year, and if he anticipated they were going to be in excess of 4 billion pounds he would mandatorily have to reduce the support price by at least 50 cents.

We think that would give us a long range program that would be equitable. We are very concerned in the dairy industry that the support price program must have enough flexibility in it to account for some of the technological changes that are already in the process of being implemented, and during the next 3 to 4 years we expect very substantial technological changes that will affect the amount of milk that is being produced.

We do not think that $11.60 price, even if that were held and held for a period of time would be adequate to balance the supplies.

Mr. Chairman, thank you very much.

Senator COCHRAN. Thank you very much, Mr. Tipton. Before going to other members of the panel, I notice that Senator Kasten has come into the hearing room, and he was scheduled to testify earlier this morning. We are glad he is here. Why don't you come up and take a seat by Senator Boschwitz and we will recognize you at this point for any comments or observations that you have.

STATEMENT OF HON. ROBERT W. KASTEN, JR., A U.S. SENATOR FROM WISCONSIN

Senator KASTEN. Mr. Chairman, thank you very much. I also appreciate the indulgence of the other members of the panel.

Mr. Chairman, first of all, I thank you for allowing me to share with the committee some of my thoughts on the state of the dairy industry and the proper direction of dairy policy.

As a Senator from the largest dairy State I can say with confidence that these are troubled times for the dairy industry in Wisconsin and across the country.

I want to say at the outset that in the depressed condition of dairying and of agriculture generally we must be realistic about what can be achieved as far as spending reductions on farm programs are concerned, particularly for this year.

I supported, along with a number of my colleagues in the Budget Committee, a spending freeze in this area when the Budget Committee marked up the budget resolution recently. While I hope it may be possible to design a farm bill that costs less than what we are currently spending, I do not think we should plan on it. The stability of agriculture must be our No. 1 priority, our first priority. Budgetary considerations are also important, but the stability particularly of midsized farms whose operators get most of their income from farming must be our primary consideration. Obviously, the administration's proposal on dairy, an ill-timed, ill-considered proposal based entirely on budgetary considerations, is unacceptable to me.

Even in better times the administration's suggestion that support prices be drastically cut and the surplus purchase program be ended within 2 years would create turmoil in the dairy industry and unstable prices for consumers. Mr. Chairman, we can do better than this. Like the rest of agriculture, dairy farmers in Wisconsin and across the country are plagued by high interest rates and declining land values, and although the price support program has provided some protection. These conditions impact most heavily on the younger farmers who are the future of agriculture.

Dairy has also suffered more than any other sector of agriculture from inconsistent and confusing Government policy. Major changes have been made to the price support program in every year but one since the 1981 farm bill was passed. This year alone dairy farmers will have to contend with three different policies.

The diversion program will end later this month. It will be replaced by two reductions in the support price, one in April and one most likely in July. An entirely new policy then will come into effect after September 30, assuming that we pass a farm bill by then.

We need to enact dairy policy this year that dairy farmers can depend on for the rest of the 1980's and beyond. In doing so we must consider one factor in particular, one that I know this committee has held hearings on within the last few days: namely, the structure of agriculture. Put less technically this means the future of the family farm. I will have more to say about this in a moment.

First, however, let me address the surplus problem, which despite the success of the diversion program, cost the Government $1.6 billion last year. The dairy surplus has many causes. It is clear that one of these is a series of mistakes this Congress has made, mistakes that have led the dairy industry to become less responsive to market forces than it needs to be.

These mistakes need to be corrected, but everyone should understand they cannot be corrected all at once. We must move toward a market oriented dairy policy, but we must do so gradually; without time to adjust to a market oriented policy, the midsized, full-time family farmer will suffer most, the very farmer that nearly all legislation ostensibly is designed to help.

It is the full-time dairy farmer with the midsized operation whose survival this Congress must work to ensure, not only for that farmer's sake, but for the sake of the rural communities whose continued vitality depend upon family farm agriculture. We will best be able to preserve the family dairy farmer if we recognize that dairy policy involves more than the price support program. I would like to ask this committee to consider at least two additional factors.

First, in the traditional dairy States of the upper Midwest and Northeast medium-sized dairy farms predominate, while in the higher cost of production areas the dairy farms are much fewer but much larger. For example, there are only three dairy farms in the whole State of Wisconsin with more than 500 cows. In Florida 532 cows is the average herd size.

Yet, our milk marketing order system discriminates against the most efficient producing regions by inhibiting the free flow of fluid milk from the upper Midwest to milk deficient States in the Southeast and lower Midwest. The orders were set up to encourage local milk production, perhaps an appropriate goal in the days when the fluid milk could not be transported great distances, but surely not appropriate today. Perpetuation of the inequities of classified pricing and the restrictions on the pricing of reconstituted milk are not only unfair to the most efficient dairy region in the country, but are inefficient economically, raising prices to the consumer and inevitably depressing consumption.

The second thing I would like to mention is the challenge that new dairy technologies pose to the extension service, land-grant universities, and of course to the industry itself. We in the Congress must strive to ensure that midsized family dairy farmers have a fair chance to take advantage of the bovine growth hormone, embryo transplants, and other new technologies when they become commercially available. If we do not, it is clear that better capitalized, larger operators will acquire these production enhancing tools first, thus accelerating the current trend toward ever larger, more capital intensive farms.

Extension must play a role in making these new technologies available to the family farmer and must also follow up by assisting in the efficient use of these technologies. It is no longer enough to focus on making dairy and other farm operations more productive. Extension must work with the academic community to make farming more profitable.

Mr. Chairman, let me conclude by restating my belief that our policy for dairy should feature a move toward market orientation, a gradual move, based on the realization that problems a long time in the making cannot be solved overnight. That move toward market orientation should not be limited to the price support program, but should include long overdue changes in the marketing order system that remove existing restrictions on the free flow of fluid milk from the upper Midwest to consumers in other parts of the country. We must help to prepare the family dairy farm's future by using the extension service to ensure that new production enhancing dairy technologies do not accelerate current trends toward ever fewer but larger farms.

Mr. Chairman, I look forward to working closely with members of your committee on forming dairy policy for the 1985 farm bill.

Thank you, Mr. Chairman.

Senator **Boschwitz** [presiding]. Thank you, Senator. I appreciate your statement. It is brief and to the point and I agree with much of what you said.

Senator Leahy, do you have any questions of Senator Kasten?

Senator **Leahy**. No, Mr. Chairman. I think we are all going to be seeing each other quite a bit during the spring as we try to put together a dairy bill.

Senator **Boschwitz**. Well, we have done that in the past and we have cooperated well together.

Senator **Kasten**. Thank you, Senator.

Senator **Boschwitz**. Thank you very much for coming. We now have Mr. Riepma. Let me repeat my request that you direct your remarks not to the history of the diversion program, which is terminating on the 31st of March, not to where milk has been, but where milk is going to go and what you think of the 1985 farm bill. Please limit your remarks to 5 minutes.

STATEMENT OF SIERT F. RIEPMA, PRESIDENT, NATIONAL ASSOCIATION OF MARGARINE MANUFACTURERS

Mr. **Riepma**. Thank you, Mr. Chairman. I have submitted a statement.[1] I would like to summarize it orally for you. Some of you may think it extraordinary that the margarine industry appears at a dairy hearing, but we have to come here by necessity not by choice because of the impact on the donation program, which of course is a result of the butter surplus.

I have many friends among the dairy people, including some here, and when I tell them about our problem I will assure you that butter would not melt in their mouths. But we have to handle it as best we can.

This Association of Margarine Manufacturers is a nonprofit, national organization. It represents the makers of, I would say, 80 to 85 percent of the margarine consumed in this country. As you know, margarine is a major table spread, about 10.5 pounds per capita.

As for policy, we do not want to get too specific about what should happen to the dairy industry, although we are related to it and our membership includes a number of firms that are in the dairy industry. We would ask that you retain the present law until its expiration date, including the two authorized deductions, April 1 and July 1.

Longer term, we think we are in harmony with most of the people in this room when we ask you to establish some sort of milk support price system that will avoid as much as possible further acquisitions of dairy products by the Government, at least on the unreasonable scale on which they have occurred.

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[1] See p. 478 for the prepared statement of Mr. Riepma.

Now, such a system might include a lower price level and continued provision for its adjustment according to Department of Agriculture forecasts of surplus acquisition volume.

One thing I would like to add to that and that is the Temporary Emergency Food Assistance Act has a clause in it that requires the Secretary of Agriculture to be assured that the donation of dairy products will not displace normal sales of other agricultural produce. Well, they have certainly displaced a great many of the sales of margarine and that clause in that law has been ignored. I would ask that this committee in its good time focus on that and try to tighten up the donation system in some manner to protect us as much as is reasonable from the impact of this donation.

About that I would like to add one point: It is a particular point that I do not believe is recognized by most of the members of the Senate. Faced with hundreds of millions of pounds of unsalable butter in surplus the Government, of course, decided to donate to emergency food centers. This is a very worthy thing to do.

It does not solve the basic structural problem we face, but it is one way to make the best of an impossible situation. We have caused a study to be made, a summary of which is attached to my testimony, and it finds that the butter giveaway has cost margarine makers during 1983 and 1984 some 270 million pounds in sales. This was not the intention of Congress, I am sure. The program commenced earlier and is going on this year and perhaps next. We do not see any end in sight.

In addition to share of margarine sales, soybean farmers have lost an estimated 200 million pounds of market. I would estimate the dollar lossses respectively to be on the order of $120 million and $50 million.

The donation program is a direct result, as you recognize, of out-of-line milk price support. It is a classic case of trying to help one industry with Government intervention and stepping on the toes of another. We sympathize with your efforts to work out a new and improved dairy policy. We do not want to be complainers. We want to be contributors.

Thank you for hearing our testimony.

Senator BOSCHWITZ. Any questions?

[No response.]

Ms. Haas.

STATEMENT OF ELLEN HAAS, EXECUTIVE DIRECTOR, PUBLIC VOICE FOR FOOD AND HEALTH POLICY

Ms. HAAS. Thank you, Mr. Chairman.[1] As you know, consumers have an enormous stake in U.S. dairy policy. They spend over $44 billion on dairy foods annually and depend on them for protein, food energy, and a very broad range of nutrients. Milk is actually a nutritionally unequivalent product.

More pounds of dairy products are consumed than either grain products or meat. As a result, consumers, like producers, are extremely vulnerable to unstable prices. This concern led to in 1977 and 1981 the decisions for steady increases in milk price supports. In retrospect those decisions were simply wrong and led to unprecedented surpluses.

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[1] See p. 479 for the prepared statement of Ms. Haas.

In fact, since 1980 Commodity Credit Corporation costs have averaged more than $2 billion a year. Since 1950 nearly half of the CCC's 34 year total costs has come during the last 5 years.

For that reason we feel it is time for us to develop a more equitable dairy policy. What I would like to do today is to emphasize three points about the current proposals and conclude with an observation. My remarks are very brief, and I just wanted to say for the committee that we will be releasing an economic study on U.S. dairy policy alternatives for the 1985 farm bill. I think it is the first time that such an economic study has been done from the perspective of the consumer, and that will be released in the second week of April.

Now, as to the current proposals and the current situation, first, the continuation of current policy even with supports lowered twice this year to $11.60 per hundredweight and frozen there for the coming 4 years is not likely to do the job to balance supply and consumption. The current prospects for abundant feed supplies imply that unless costs increase more than expected surpluses will persist. The temporary 1983 program did lead to lower cow numbers but only a very temporary reduction in production capacity.

Second, the administration's proposal contains significant dangers of investment dislocation and serious price instability for consumers. Despite what the Washington Post said this morning consumer organizations are not supporting that proposal. The program would operate in its current form for 2 years with price support levels reduced twice during the period.

At the beginning of fiscal year 1988 the Price Support Program would end and be replaced by a target price, Direct Payment Program. Those policies would then cause major heard reductions and likely to lead to an overreaction by producers, very tight milk supplies, and that means high milk prices for consumers after the end of the milk Price Support Program.

Third, we have taken a very quick—and I underline very—look at Senator Helms' bill. We do agree with its commitment to reduce support levels persistently until a better production-consumption balance is achieved. However, it operates with a fairly restrictive formula. Price supports in fiscal 1986 are held at $11.60 per hundredweight. The same is under an extension of the current policy.

By requiring the Secretary to look forward each year in his projection and then limiting the amount of the price support reduction by formula, the production-consumption balance really wouldn't be achieved for too long a period of time.

We suggest instead that price supports need to be reduced below that $11.60 level in 1986 and continue to be adjusted steadily until we reach the production-consumption balance.

Finally, in order to ensure adequate supplies of wholesome milk and to limit pressures on producers from productivity growth the Government has played a very large role in dairy marketing for more than 50 years. Adequate supplies of wholesome milk have come to be taken for granted. In the process the Government has developed a policy of controlling milk supplies. It has constructed a complex set of programs that, as we all know, limit imports, separate regional markets, and support milk prices. It ensures incentives to produce in regions that otherwise might import milk, and it has enormously increased consumer costs.

Through the Government's continued market intervention milk consumption has been steadily reduced and prices held above levels they would have reached in more competitive markets. Not only have consumers paid higher prices, but they have paid higher taxes because the programs have operated at vast Government expense, especially since 1979. While the basic concern regarding adequate and wholesome milk supply has not changed and should not change as a major program objective, we believe that recent experience indicates these objectives alone do not sufficiently emphasize the necessary consumer interests.

We believe that four additional criteria are needed. They would require that effective dairy policies, one, achieve a balance between production and consumption at reasonable prices and be sufficiently flexible to respond to changing circumstances by adjusting price support levels in order to facilitate such a balance.

Two, that they rely on simple direct programs that permit market forces to balance and adjust production and consumption. Programs that intervene continually to restrict production, marketing, or assessment producers are confusing, costly to administer, and may slow rather than facilitate adjustment.

Three, protect both producers and consumers by limiting the price and production instability inherent in milk production. Policy changes must avoid unnecessary, abrupt disruptions so that adjustments toward a balance are incremental rather than severe shifts likely to cause dislocation and overreaction.

Finally, ensure that wholesale and retail price changes reflect competition and the industry's rapid productivity growth. We believe that a more equitable policy could be developed through small shifts in policy, and it could be simple, effective, and low cost, thereby achieving necessary protections for the farmer and consumer.

We look forward to the months ahead in working with you and the committee to seeing that we have the best farm bill ever.

Senator BOSCHWITZ. Thank you very much, Ms. Haas. I have read your testimony. Senator Leahy.

Senator LEAHY. I have a few questions for the panel as a whole. I appreciate the testimony. I, too, have read it before and having it read to me a second time is going to make it indelible in my mind.

We have had testimony that consumer prices have not decreased even though we lowered the support price of milk. Do any of you have evidence that consumers benefit from the lowered price supports for milk?

Mr. DEAN. Yes, Senator, I think we see it in a number of our markets. In fact, we have a situation right now in anticipation of the April 1, 50-cent reduction, our dairy operations in west Texas and New Mexico have already, because of competition, reduced their prices.

Senator LEAHY. Will your product sell for less in the stores starting April 1?

Mr. **Dean**. I cannot guarantee it will be less in the stores. I do not know what the retails are going to do. Chances are it will be less because the prices are less right now.

Senator **Leahy**. The prices may be less for other reasons, but if they are less right now then it obviously is for other reasons, because the next price support reduction will occur after April 1.

Dairy farmers took a very significant price cut, but I do not see any lower milk prices in the grocery stores. I go shopping with my wife and family. I do not see any drop in prices.

Mr. **Dean**. Well, it depends on what market you are in. In the Southwest the reduction has already taken place at the retail level. I think we will see the same reductions, maybe not to the full extent of 50 cents because we have offsetting costs that have kept increasing over the period of time when we have not been able to raise prices.

Senator **Leahy**. Yes, Ms. Haas.

Ms. **Haas**. Senator Leahy, first of all, the price at the supermarket depends on the Price Support Program, but it also, to a much bigger extent, does have to do with that farm to retail spread. Now, I would love to see that spread get down, too, but the marketing costs, the labor costs are about 50 percent. Then the price support reduction is probably about 12 percent of that price.

So when you saw that price support reduction a year and a half ago, it was small as far as the consumer was concerned. We need to see a larger one in order to see decreases.

What it has done is dampen any increases, which is just as important to consumers because we have to pay in the end—we are at the end of the stream and we have to take all of the additional costs. If the price support sets the floor, then the lower that floor is going to be the lower the price the consumer will have to pay.

Senator **Leahy**. I have a great respect for you personally and for your organization, as you know, but this issue is one that only those of us in Washington discuss. We are all paid above the national level wage. I even found Senators who earn nearly half of what some of the lobbyists make around here in income. We are all paid well above the national average.

It's easy to talk about milk price cuts here in Washington. Farmers in Vermont are working 80 hours a week from predawn until late at night—working like mad. And you tell them, well, you know, we are going to cut those price supports because the consumer is going to get an advantage.

Those farmers are consumers, too. I know a lot of families in Vermont, and, Mr. Chairman, I am sure it is the same in Minnesota; they are having a heck of a hard time making ends meet. They have to send their kids to school. They have to buy groceries. They have to pay their bills, and their mortgage payments. They do not have to pay for vacations because they do not get them.

But they are out there working. And the Government says, OK, we are going to keep cutting the price of your product because the consumer is going to benefit by it. But the testimony year after year indicates the consumer does not get any lower price. Mr. Dean, your group is not going to cut prices. Mr. Tipton, I am going to give you a chance in just a second here. But it seems that the farmers continually get production cost increases. They are told to cut back the cost of their product or the price they get for their product because somewhere somebody is going to benefit.

Well, they are not getting any production cost decreases; they have production cost increases. Their cost of living continues to go up, but their product is priced lower, not just for milk but for everything else.

Wheat farmers tell me how hard they work to raise the wheat and it costs more for the wrapper that goes around that loaf of bread than what they get for the wheat in it.

I dare say that a lot of the suppliers of food, do get their vacations and do pay their bills. I am not questioning how hard they work. But at some point we are going to have to find a balance.

In summary, you have to realize farmers are also consumers as well as producers. You cannot keep telling them that their production costs will keep going up but somehow they have to keep cutting the cost of their product because the consumer is going to benefit by it.

I am one of those consumers. I do not see prices come down in the grocery store. Go ahead.

Mr. Tipton. Senator Leahy, I think that that is a very difficult one to draw the easy comparisons on, but the facts are, as I see them, that the retail prices are directly related to changes in raw product costs. Now, people like to compare it to the price support, and often the price support does not actually determine what the raw product costs are.

In fact, I was in a discussion with one of your constituents not long ago in a meeting. He was from New England. I think he was from Vermont. He was asserting that the price did not come down last fall when the price support dropped. The fact of the matter is I doubt if it did.

But the real facts are the price of milk went up last fall largely because of the Diversion Program in the Southeast that everybody has already been talking about that forced the prices up. So when you look at a chart and you say, gosh, the price support came down in September; why didn't the price of milk come down at the retail level. It couldn't. The cost of milk went up.

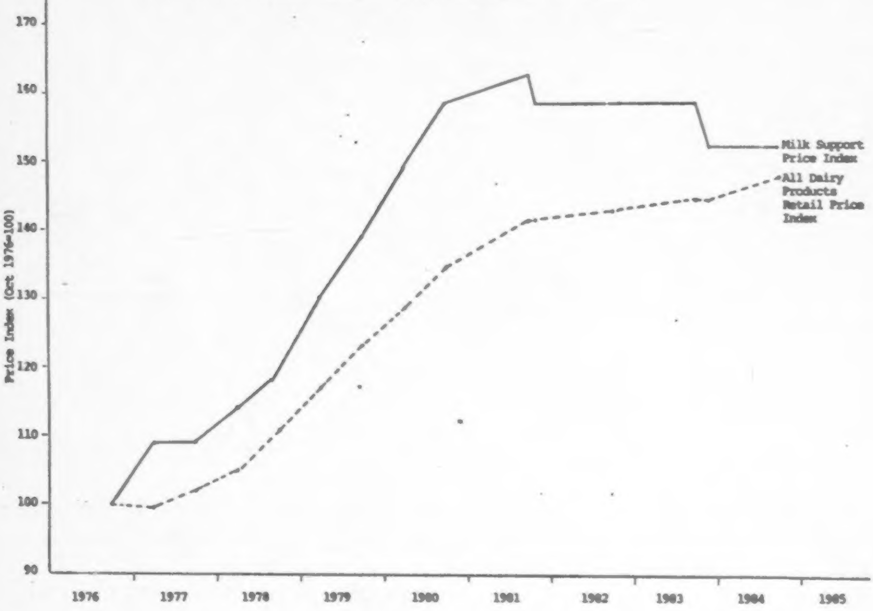
I do have a chart which I would like to offer for the record that does in fact take the retail price index and compare it against the price support program, and you will find they are both anchored starting in 1976, both of them being equal. They are indexed so both of them are equal.

You will see that the milk price support program increased considerably faster than did the price, the retail price. so the fact of the matter is that the increase in costs did not get fully passed through when the price support went up.

I do not hear many people talking about that, but that is in fact the case. The margins were squeezed. Then the price support has come down, and when the price support came down there has been a very significant leveling off of the retail price.

But in the case of milk—I think Ellen mentioned this earlier—in the case of milk only about 50 percent of the cost of the retail price of milk is actually in the raw milk cost. There are other costs involved, and certainly those change. We had some inflation, although it has come down.

But I hear that assertion a great deal. The facts do not warrant it, in my opinion, but I hear that assertion to a very considerable extent. I would like to offer that for the record, if I may, please.



Retail Prices Follow Support Price Trends

RETAIL DAIRY PRODUCTS AND MILK SUPPORT PRICE INDICES,[1] 1976–84

Date [2]	Price support index	Retail dairy products index
Oct. 1976	100.0	100.0
Apr. 1977	109.0	99.2
Oct. 1977	109.0	102.0
Apr. 1978	114.2	105.2
Oct. 1978	119.5	111.0
Apr. 1979	130.3	117.2
Oct. 1979	139.1	123.5
Apr. 1980	149.6	128.8
Oct. 1980	158.6	134.7
Oct. 1981	163.3	141.6
Oct. 1981	158.6	141.9
Oct. 1982	158.6	143.1
Oct. 1983	158.6	144.8
Dec. 1983	152.5	144.7
Oct. 1984	152.5	148.2

[1] In order to graphically depict the relationship between the dairy products retail price index and the changes in the milk pirce support, the retail dairy products index and the milk support price values have been indexed with the index and price support values for Oct. 1, 1976 set equal to 100.

[2] Date indicated is either the beginning of each marketing year October 1, or the date at which the price support was changed.

Sources: Bureau of Labor Statistics and U.S. Department of Agriculture.

Senator **Leahy**. Mr. Tipton, I do not disagree with much of what you say. I have found over the years that you have been an extremely good source of information for this committee, and your expertise, I think, is recognized and applauded by members of both sides of the aisle in here.

My concern is the public perception that farmers are sitting out there just tapping into the U.S. Treasury and are getting rich. The fact is that many of them are just holding on. We have to consider what the economic effects are going to be 10 years from now or 15 years from now if a whole lot of these places go under. We also have to figure out what it is going to do to our own national security if we as a Nation will no longer be able to feed ourselves.

I do not say that as any kind of rhetoric or hyperbole. If you look at the figures we could very well be at the end of the century in a situation where we have to import food.

In the seventies, we encountered problems of having to import oil and how that affected our foreign policy, our economic policy, and social policy. I do not want to see the same thing occur with food. I do not want to leave the public perception that somehow we have a whole lot of dairy farmers out there just getting rich and somehow being heavily subsidized.

Take a map of the State of Vermont. Go ahead and stick a pin in it anywhere and we will go to the nearest dairy farm; pick it totally at random. Anybody who feels that they are not working hard, come to Vermont with me. I will spend 24 hours with anybody that wants to go, provided they go through the whole schedule for the whole 24 hours at the dairy farm. This is the same way up in Minnesota, Wisconsin or anywhere else.

Senator **Boschwitz**. You should come in the summer, though.

Senator **Leahy**. Let me tell you it is the mud season in Vermont. That is the season that we try to keep very secret.

I am sorry; Ms. Haas, you wanted to say something.

Ms. HAAS. Well, actually I was invited, I think, 4 years ago by the Wisconsin Farmers Union and I did get up at 5:30 a.m. and milked the cows and did see how hard farmers work, and I understand that. We were very careful and have always been not to in any way say that dairy farmers are not working hard and that public policy should not balance both the needs.

I wish the reason that we had reductions was because the consumer interest was well represented and Congress responded. But those were not the reasons that public policy changed and we reduced the price support level. It was because the signal was so high, the surplus was so much and so costly, that we had to find another way to do it.

What we are getting out now is to work towards a time where we balance that production and consumption. There is no question, when prices are too high, consumption goes down. Now that we have turned the corner you do see the beginning of an increase in use and consumption. That is going to be in the best interest of the farmer just as well as the consumer.

Senator LEAHY. We are also seeing better promotion.

Ms. HAAS. Well, that has not had its impact yet.

Mr. DEAN. Senator, could I add one thing?

Senator LEAHY. Sure.

Mr. DEAN. I think our prices are in line. I think they are in line with competitive products such as Coke, 7-Up, beer, all the other drinks, and that is really where we feel we bave lost our consumption to the soft drinks and other substitute products. Finally, this year is the first year we have realized consumption increases in the dairy industry. Hopefully we are getting the product down to the level where it is competitive with Coke and all the rest of those products. That is why we are interested in seeing the price is either maintained or reduced and not increased.

Mr. TIPTON. Senator, could I add one thing with respect to the effect of the advertising program. We are very much supportive of the advertising promotion program and think that that is a great help to the industry. Just so the facts do not get distorted as to the effect of price, the first ads out of the expanded advertising program were not run until last September and some of them in the middle of September. The increases that we are talking about really occurred prior to that.

Now, I anticipate and we have factored in estimates that there will be continued increases and probably even more extensive partially as a result of the advertising program and partially, we think, because the prices are going to be rather flat and level.

Senator LEAHY. Thank you, Mr. Chairman.

Senator BOSCHWITZ. Thank you very much. I hope that dairy will be competitive with all those particular drinks that you are talking about. We have tried sometimes to include flavoring just as you do in ice cream with various flavors. Some work, some do not, like anything else. Frankly, I have been cost disappointed with the efforts of the dairy industry to promote and produce new products and to compete with their competition who you just alluded to.

We thank you very much. Our next panel is Irvin Elkin of AMPI, who has been here before; and Lloyd Patterson, and Clyde Rutherford of Dairylea Cooperative.

Mr. Patterson and Mr. Rutherford, you have not submitted written testimony, is that correct?

Mr. RUTHERFORD. That is correct. Due to the deregulated airlines we were busy in another city. [Laughter.]

Irv, go right ahead.

STATEMENT OF IRVIN J. ELKIN, PRESIDENT, ASSOCIATED MILK PRODUCERS, INC., AMERY, WI

Mr. ELKIN. Thank you, Mr. Chairman, and members of the committee.

I am Irvin Elkin, a dairy farmer from Amery, WI. I am also president of Associated Milk Producers, Inc., a dairy cooperative marketing association headquartered in San Antonio, TX.

AMPI consists of more than 25,000 dairy farmers in some 20 States.

I do have a prepared statement which comments in detail on a number of issues, and I will submit that for the record and summarize my comments.[1]

Much attention has been focused on the agricultural credit crisis in the last few months. You are well aware of that. That issue must be dealt with for many farmers to plant this spring. We are aware of that.

But in the process we must not lose sight of the fact that the basic problem is not farm credit; rather, it is inadequate farm income to service the credit that has already been granted. For too long our farmers have been substituting credit for income and now the time has come to pay the bills.

I think the 1985 farm bill does provide the opportunity to address this.

In 1983 Congress approved the dairy compromise establishing the Dairy Promotion Program and the Milk Diversion Program. The Promotion Program, which was just talked about, is in place, and we think it is operating very effectively. It is a long needed tool, and we want to thank this committee for its help in getting us that Promotion Program. I think it is very important.

The diversion program has demonstrated the effectiveness of the supply management concept. Government costs were reduced by more than $1 billion, and we were able to halt a production increase that had been running for 56 or 57 months. These prints attest to the fact that the program did work.

We also admit there are some weaknesses in the program which we think could be corrected in the future. We would like to have a similar type program on a standby basis so that we can correct the overproduction problems long before they grow to the point where they were the last time. As National Milk reported earlier, we have been working as a member of the National Milk Producers Federation and bascially support the position they stated here today.

We think it is essential that the Purchase Program be continued as the basic operating element of dairy price support policy, and I am very pleased in the testimony today to hear that that is generally supported. We might have differences at what level and how, but it is the very basis of the program that we have known for 35 years and has worked well.

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[1] See p. 481 for the prepared statement of Mr. Elkin.

We agree that it needs some fine tuning because we have had some problems with it in the last 4 years that we are not happy with either. The Price Support Program, as I said, is essential to provide the stability we have relied upon over these past years.

Abandoning this proven mechanism, I think, would be very bad for the industry because we would have wild price swings and which are damaging both to the producer and to the consumer. When I hear talk about getting this supply down to 2 to 4 billion pounds I think back to the time in the early seventies when we did get down to that level and below. For the consumers that are interested, milk prices shot up about $2.50 per hundred from a base of about $5 to $6. So it was about 50 percent. Although I agree that too much milk production is a problem, I will tell you, too little becomes an even bigger problem.

Senator **Leahy**. In fact, at the time you are talking about we had about 15 or 20 less people in this country, too.

Mr. **Elkin**. We sure did, and because of low prices for too long production dropped 5 to 6 billion pounds almost overnight. We had severe shortages, and I will tell you, that was a serious problem also.

We do look forward to working with the committee. I hope I have saved at least 1 minute to make a comment, the rest of the story, so to speak. Some of this was discussed earlier.

Senator Heflin mentioned lawsuits. We have had enough lawsuits in the dairy industry. I hope the States are not going to sue each other.

But in relation to the $2.50 cost that was mentioned and its being discriminatory, this is not at all the case. We operate plants in that heavy manufacturing area. Those plants, if you are going to build them today, are $20, $30, or $40 million investments for the equipment, land and facilities. Dairy farmers have very heavy investments in those plants.

At the peak production season they may operate at 90 percent of capacity. As the demand for fluid milk decreases, they may get down to 60 percent of capacity or less. The increased unit cost is tremendous. When you try to take milk out of these plants that is a true cost, a giveup cost. The dairy farmers up in that area own these plants on a year around basis. Rest assured, if a neighboring plant wanted to buy that milk they would have paid at least $2.50 a hundred, too, because they are competitors.

So, I think it is important to understand that those costs are real. What is being asked for at the time is that there be some sharing of that cost of maintaining that capacity.

With that, I thank you for the opportunity and again I hope we can work with the committee on the farm bill.

Senator **Leahy**. Thank you very much. Our next witness is Lloyd Patterson, the president of the Green Mountain Federation in St. Johnsbury, VT. I might say that as an aside, I personally feel very pleased, as a Vermonter, to have Mr. Patterson here. He is one of those people that we have all relied on in Vermont to help us with our dairy legislation and farm legislation generally.

I might say that if Senator Stafford, my senior colleague was here, he would say the same thing. If Congressman Jeffords, my colleague in the House from Vermont, he would say the same thing. Each one of us rely on him, as have administrations, Republican and Democrat, in the State of Vermont. Members of the congressional delegation of both parties accept his expertise. He speaks for what he thinks is best for Vermont. Vermont is first and foremost and he does not really care about anybody's politics.

Mr. Patterson, I am glad to have you here again.

STATEMENT OF LLOYD PATTERSON, PRESIDENT, GREEN MOUNTAIN FEDERATION, ST. JOHNSBURY, VT

Mr. **Patterson**. Thank you. I guess I have to start right in with some alterations in my comments. I did want to say, Mr. Chairman and other distinguished members of the committee——

Senator **Leahy**. All members of the committee are distinguished whether present or not, of course, and they do not become extinguished. The unfortunate thing, as always happens on a Friday, as you try to wrap up a whole lot of different committee meetings, each one of us has a number of other committee meetings going on. Other Members have asked me to stay here and chair the meeting. Go ahead, please.

Mr. **Patterson**. Well, for the record, my name is Lloyd Patterson. My family and I operate a true family dairy farm in Danville, VT.

The first thing that I wanted to tell the other Senators and I wanted to tell all the people in the audience is how much love and respect we have for Pat Leahy.

Senator **Leahy**. Thank you, sir.

Mr. **Patterson**. He tells it as it is. He listens intently to the needs of Vermonters and their concerns. But he also tells us very frankly what can and cannot be done on the Washington level. I make those comments with my tongue in cheek just a little bit today. I really mean them, Pat, but I wanted to tell you that in your opening comment today you pretty near made my testimony.

I was introduced last week as the guest speaker at a Rotary Club as a successful farmer, and I would like to talk about that just a minute if I may. I would like to talk about the meaning of success.

My wife and I started farming 35 years ago with absolutely nothing in our pocket. Now, I want to tell you that with a lot of hard work, a lot of cooperation, and a lot of help from other people we have been able to maintain that position. [Laughter.]

Now, if success is measured by thousands and thousands of dollars in the bank or owning the bank, I want to tell you, I am a complete failure. Our assets are tied up in the farm. We are very proud of it, but we are very concerned, too.

I do serve as president of Cabot Farmers Cooperative Creamery, a small but very viable co-op in northern Vermont. I also serve as president of Green Mountain Federation Cooperative. That is a federation of, if you will, all the operating co-ops in Vermont. I also serve on several other dairy groups as a member and as a director, both regional and national.

For the past 3 years I have served on the committee for National Milk Producers, which has earnestly, and I believe effectively, sought a unified position for dairy. I will not expound on that position today. I am sure you have heard about it and you will hear more about it. The only thing I want to say is that I am tremendously pleased with the progress made at yesterday's meeting. I only wish to tell you that I very enthusiastically support their position.

In my opinion such a program would drastically reduce the cost to the Government while at the same time give a farmer the ability of controlling his own destiny. Please listen to their concerns, their ideas, and wherever possible help them to make a great idea even greater.

Dairying is a business, but it is also a way of life, which is important to the economy of all rural areas of this great Nation. I read with great concern about the problems confronting agriculture in other areas of this country, and I really wonder about the future for my children and grandchildren.

A couple of years ago I brought down a picture of my grandchildren. Pat, I did not dare to be that corny again, but I want to tell you that I am truly concerned, very truly concerned about their future in this great industry. I believe that the dairy industry in this country should be united around a common program. Dissention within our ranks serves no useful purpose, and it threatens the livelihood of all dairy farmers.

Dairy's problems did not occur overnight. Therefore, we should not seek a solution which only provides a quick fix. We owe the Congress, the consumer, the taxpayers, the farmers, and the industries that rely on farmers more than a simple solution.

We need future generations of farmers. We must devise a program which provides long term stability. I truly believe that the administration's program shows a callous disregard for our future food supplies, consumer food costs, farm families, and the basic economy of the rural areas of this country.

To me that is a little bit like cutting your throat when you have a headache. I want to emphasize to you that the farmers of Vermont are not asking for continued Government purchases at record levels and record costs. We recognize the obligation to reduce the cost of the U.S. Government.

For all of these reasons I want to ask you to consider again the proposal that will be brought forth by the National Milk Producers, and I offer to you my help and my support however small it may be.

In closing, I wish to thank you very, very sincerely for the opportunity to appear before you and offer my thoughts on the future of the dairy industry. Thank you very much.

Senator LEAHY. Thank you very much, Lloyd Patterson. Mr. Patterson, as I noted before, has testified before this committee on a number of occasions. I appreciate it and I think it means a lot to the rest of the committee. I noticed when you walked in Senator Boschwitz and everybody else recognized you. So that shows that they are paying some attention to you here.

Mr. Rutherford, who is the president of Dairylea Co-op in Syracuse, NY, we are also glad to have you here again.

Incidentally, I should note, if I might, that Senator D'Amato wanted to be here for your testimony, but he is headed back to New York. Without objection I will put Senator D'Amato's statement in the record.[1]

Go ahead, please.

STATEMENT OF CLYDE E. RUTHERFORD, PRESIDENT, DAIRYLEA COOPERATIVE, INC., SYRACUSE, NY

Mr. **Rutherford.** Thank you, Senator, for the opportunity to speak with you today about an industry which contributes $44 billion to the economy of this country. I am speaking of the U.S. dairy industry.

I would also like to say that the agriculture industry is not the problem many may think. What is wrong with having an abundance of food for the consumers of this country and also have the ability to supply the needs of other parts of the world?

We need a balanced agricultural program for the farming community. Because I am a dairy farmer I would like to address the dairy portion of the 1985 farm bill. A short 18 months ago we were discussing the compromise bill. It was effective in cutting production and cost to the Government with a program fully paid for by dairy farmers. Now we need a long-term program.

In the Northeast farm organizations have been working together for nearly a year to agree on a consensus for what we would like to have included in the 1985 farm bill. The group which I represent includes the major and majority of the dairy cooperatives in the Northeast, which includes Pennsylvania, New York, and New England, and the major farm organizations such as the State farm bureaus, the State Granges, Northeast National Farmers Organization and Northeast Farmers Union Organization.

The items that we feel are important to be included: One, include a national agricultural policy. This would be a formal declaration by Congress of a comprehensive national agricultural policy, which would first recognize a critcial dependence of 98 percent of our population on 2 percent of the operating farms.

Two, establish a basis for consistent and equitable international trade relationships.

Three, oppose the use of export embargoes except where the health and welfare of the American public may be jeopardized.

Four, endorse the maintenance of a reasonable national food reserve adequate to level out the effects of widespread adverse conditions.

And, five—and we feel this is very important—call for the establishment of a monthly computerized data collection system from both public and private sources to provide the Congress and the President with timely and accurate data about the economic health of the Nation's agricultural community as reflected by mortgage and loan delinquencies, sellouts, bill payments, foreclosures, and extras.

The main parts for the 1985 farm bill relative to dairy include continuation of the present price support program and purchase program, creation of a new dairy-specific parity, and also include a formula which would authorize the Secretary of Agriculture to move the support price up or down in response to supply and demand, and that the price support level be set at a base which is a market clearing level, not a production level. The support price should not be a market price.

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[1] See p. 447 for the prepared statement of Senator D'Amato.

We also support continuation of the Federal Milk Marketing Order System, which has been effective for 45 years, and we also support the continuation of the national dairy promotion program, which we strongly feel has been beginning to show the effect of heavy promotion, which is fully supported by dairy farmers and we expect the success of that will continue as promotion expands.

The program we are suggesting has the flexibility to work. It will cut the costs. It has no quotas or bases, and it is a long-term program.

Thank you very much.

Senator LEAHY. I understand that some of your testimony it has been left in your luggage elsewhere, which we will include, incidentally.

Mr. RUTHERFORD. I will send it.

Senator LEAHY. We will include that in the record.[1]

Would it be safe to conclude that what you would like to see is when the Congress and the administration get together to write a 4-year farm bill, they actually write a 4-year farm bill?

Mr. RUTHERFORD. That is exactly right. We would like to know what the future holds without many changes.

Senator LEAHY. I am afraid to tell you that the consensus is fast growing around here that this 4-year farm bill will amount to a 1 year extension, perhaps with changes as it goes along.

I have been here 10 years and I have not seen a 4-year farm bill the last 4-years. I see some nodding heads in the audience. I think a lot of you have been here longer than 10 years.

Has anybody ever seen a 4-year farm bill the last 4-years? Has anybody ever seen a 4-year farm bill?

Mr. Patterson, along that line, you talked about your family farm. Yours is a family farm; you have grandchildren; you have children. You mentioned you had the pictures of them in here a couple of years ago. You have the same sort of feeling toward those children as I do toward mine. You have seen our Christmas cards. Our children grow each year. Both your children and your grandchildren come to you and ask you about the future of farming in Vermont. What do you tell them? What do you tell them today?

Mr. PATTERSON. Senator, I am really telling them to keep a watchful eye on legislation. As I mentioned in my testimony, I do not own any banks. What little money I have is invested right in the farm. We do have—I believe we have a considerable amount of equity in the farm. I am concerned—I am very concerned that it be protected. I read with great interest about farmers in the Midwest losing their equity.

I am really concerned that I hope we can come up with a farm bill that does give, as Mr. Rutherford said, some long-term stability, and I guess, to answer your question, I cannot be entirely pessimistic, but I really am telling them to keep an eye on the equity that we do have.

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[1] Mr. Rutherford's statement was not received as of press release.

Senator **Leahy**. Again, to quote Mr. Rutherford, if we do not come up with some long range plans, is it not safe to say we are not going to have those young people going into farming?

Mr. **Patterson**. I think it is very safe to say that.

Senator **Leahy**. I would hate to see a situation where we are looking at one of the last generations of independent farmers. I think that that is the feeling of everyone in this room. I think we would all agree with that, and I think all consumers agree with that, too, if they really stop to think about it. Let us continue to work and hope that we can come up with the kind of programs that make it possible for young people to farm. We have an agrarian history to live up to in this country. It has helped keep this Nation strong for a couple hundred years. We have to find a way to continue to do it for the sake of the country.

I thank all of you for coming here. I know that every one of you has things that you would rather be doing today, but you help in coming here as did the panel before you and all the other panelists. Thank you.

Mr. **Patterson**. Thank you, Senator.

Senator **Leahy**. We have Dan Hollingsworth, a dairyman from San Jacinto, CA, and Fred Douma, California chairman of the Milk Producers Council. I might say that Senator Wilson, who is a member of this committee, is back in California. He hoped to be here to welcome you and asked me to pass on welcomes to you both.

STATEMENT OF DAN HOLLINGSWORTH, DAIRYMAN, SAN JACINTO, CA

Mr. Hollingsworth. Thank you, Mr. Chairman.[1] I appreciate you staying through your lunch hour so I could give my testimony before this committee, and I think you have stayed long enough to at least get some good news because I want to tell you today in my testimony how we can solve the dairy surplus situation, bring milk supply down to demand levels, cut the Commodity Credit Corporation's purchases to 4 billion pounds, not cost the Government any money, not cost the dairymen any money, and not hurt a single producing dairyman in the process.

The plan would work like this. I think, first of all, we have to look at our goals. We have a short-term goal in this industry and we have a long term goal. I think Chairman Cochran stated the long-term goal just as well as I can. I am in complete agreement with that. In the short-term goal we need to bring supply down to demand levels. We need to return some profitability to this industry, and we need to reduce those Commodity Credit Corporation purchases to less than 4 billion pounds and get the Government out of the business of funding an exhorbitant dairy program.

The plan would work like this. The plan is called the no net cost self help dairy plan, and it would be a total herd reduction plan on a bid basis voluntarily. A dairyman would submit his bid. It would be administered by the USDA under the direction of the Secretary of Agriculture.

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[1] See p. 487 for the prepared statement of Mr. Hollingsworth.

A dairyman who wants to get into this program would say, OK, you can have my cows, my total herd for x number of dollars over slaughter value. One might say $100, $200, $500, whatever.

This plan would be spread out over a period of 6 to 12 months to lessen the impact on the red meat industry. And then the Secretary would start picking bids. He would start at the $100 cows and work on up the line and say this month he is going to pick up to 200,000 cows. He would start at the bottom and work up. When that dairyman's bid is accepted, he would have 30 days for those cows either to go to slaughter or export. This process would continue for 6 to 12 months.

He would also further agree that he is going to remain out of business for a specified period of time.

By the way, along with this bid he would send a copy of his creamery statement for the past 12 months so the Secretary knows exactly how much production they are taking offline. When we get down to that 4 billion pounds it would cease. This is our short-term goal.

Now, what have we accomplished? At this point in time we have gotten the dairyman out of business who wanted out at his price voluntarily. We have reduced the Commodity Credit Corporation's purchases to that 4 billion pounds. The Government is completely out of the business of buying excess product, and we have not hurt a single dairyman in the process.

Let us look at the costs on this. Let us say that we take out 1 million cows and the cost on that 1 million cows would be $450 million if we take an estimated cost of $450 per cow. Now we have $450 million, then let the remaining dairymen pay for that over a period of 36 months.

If we divide that $450 million by 36 months, you will find it is $12 million a month.

Senator LEAHY. This only works if those dairymen who want to sell their cattle really want to get out forever.

Mr. Hollingsworth. That is right, and it may not be forever, but it should be a specified period of time. I do not know what that magic number is. Some say 5 years. Some say 1 year. Some say none. But I think it should be a factor in there. He is doing this voluntarily. It may be a person who wants to retire. It may be a person who says, well, I can pay off my banker this way and we can go out and at least buy a home in town and do something else.

This is going to happen anyway. But let me look at costs. If you take $450 million and divide that by 36 months you have $12 million a month. Now we have reduced production down to about 125 or 126 billion pounds a year. At 120 billion, 1 cent a month will raise $1 million. So this plan is going to cost about 12 cents per hundredweight with an interest factor throw in. It would be 14 cents. That is based on an average cost of $450 per cow. You will not know what that cost is until the program is over. But the savings to the taxpayer are immense under this program. Take a cow producing 12,000 pounds of milk per year. Take storage and purchase costs and all of that at $17 a hundredweight. That is $2,040 for every cow you take out.

If you take out 1 million cows it is $2 billion. They are going to come out anyway one way or the other. They have to go.

Now, I do not want to dwell too much on this, but another thing we could do is instead of taking the support price cut in July is freeze that support at $12.10. This program could be started now. It does not have to wait until September 30. It is a startup ahead of that 1985 farm bill to get us back in balance and then address these other problems on a long term basis.

Many of them have been advanced today on how to keep that supply and demand in balance. There are many proposals I can agree with.

But I want to read something to you. I want to quote it, so I should read it. It was a statement by Deputy Secretary Lyng before this committee on April 14, 1983, in which he said: "A solution to the dairy problem must be unique. It should be designed to strike directly at the heart of the situation."

He further quoted the Secretary of Agriculture's dairy policy statement issued the month before in March 1983 in which the Secretary urged that a solution embrace these principles:

> It should allow freedom of initiative for an individual dairyman. It should not force him to operate under any type of restrictive system.
>
> It should maintain the basic type of program that has served producers and the industry so well since 1949.
>
> It should lower dairy surpluses by simultaneously reducing milk production and increasing consumption.
>
> It should be simple to administer and easily understood by dairy farmers.
>
> It should give the Secretary of Agriculture the flexibility over time to adjust the program to changing supply and demand situations.
>
> Proposals which embrace these principles will receive the support of this administration.

These principles are just as valid today as they were 2 years ago. The no net cost, self help dairy plan with a support price reflecting market conditions coupled with a promotion program already in effect embraces all of these principles and deserves the support of Congress and the administration and should be enacted as soon as practicable.

I also should mention that the program I have outlined here today has been endorsed by the Washington State Dairymen's Federation, which is a trade association in the State of Washington that represents about 1,000 dairymen in that State.

It has also been endorsed by the Northwest Dairymen's Association, which is a producer group of 1,500 members in the four States in the Northwest.

I presented this plan to a group of the dairy leadership, at the Western Conference of Dairymen, in Reno the day before yesterday. There are a few signatures here from our neighborhood. With the balance from the conference with 82 signatures in support of this program that I would like to make a part of the record.[1] These people are in 13 different States.

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[1] Retained in the committee files.

I know that I could add more to this, but I will leave some time for questions. Thank you very much, Mr. Chairman, for the opportunity to be here today.

Senator **Leahy**. Thank you very much. I am going to want to think over that plan a bit and I may even send a couple of questions out to you. That is the first I have heard of this particular plan, and I suspect other members we will have some questions.

Please go ahead, Mr. Douma.

STATEMENT OF FRED DOUMA, CHAIRMAN, MILK PRODUCERS COUNCIL

Mr. **Douma**. Thank you, Mr. Chairman. My name is Fred Douma. I am a dairy producer from southern California.[1] I am also the chairman of the Milk Producers Council, a trade association of dairy producers. My testimony today is endorsed by all of the various producer groups in southern California and in concert in principle with the majority of the dairy industry in California.

Our proposals for the 1985 farm act dairy programs can be divided into four basic positions. The first position is a firm belief in the necessity of maintaining the current type of purchase program; that is outright purchase of cheese, butter, and nonfat powder. This type of program is necessary to maintain stability in the dairy industry because of the very perishable nature of fluid milk products and response time to changing market conditions. Response time to a tight market is at a minimum 2½ years to enable the necessary increase in milking cows to come on line.

Conversely, once a signal is given to increase production and the necessary increase of replacement heifers has taken place, the response time to change a flooded market is equally as long since the increase in replacement heifers has already happened.

This natural response time to change in market demands and the inverse relationship in the commercial marketplace to production and consumption should clarify the necessity of maintaining a truly market related Support Program. Any dairy program should truly be a Price Stabilization Program and not a Price Enhancement Program.

Our second position is to achieve for the long term a tie between the support price for dairy products and the real cost of producing milk. A dairy-specific parity index as developed by the National Milk Producers Federation appears to achieve this goal. This type of index has the ability to track current and actual costs of producing milk, whereas the parity index which exists in current law has very little relationship to milk production costs.

The third position that we support is the application of mandatory and discretionary supply-demand adjustments to any price which is determined through a dairy-specific index. This kind of adjustment would enable the Secretary to achieve a proper market oriented price. A 3 to 4 billion pounds of milk equivalent purchase by the Commodity Credit Corporation should be the base level to implement either a plus or minus factor to the index price. Any increase in import quotas of dairy products should be added to the base level of CCC purchases.

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[1] See p. 490 for the prepared statement of Mr. Douma.

Our fourth position is the acceptance of the $11.60 per hundredweight support price, which appears to be inevitable under current law to be the price on July 1 of this year, as a support price until expected CCC purchases are below 4 billion pounds of milk equivalent. We believe this price level will accomplish this goal by October 1986 unless feed prices do not make the expected and justified upward adjustment.

As a last resort we could accept a standby authority after October 1986 for further adjustment below the $11.60 per hundredweight support price, of 50-cent increments if the goal of 4 billion pounds if CCC purchases is still not expected to be achieved.

The groups that I represent emphatically oppose any program or even standby authority for a Milk Support Program based on quotas, production bases, diversion payments, producer assessments, or similar programs. Adjustments in production and consumption must be accomplished through adjustments in the price. Any diversion program or quota system will and has created distortions in available milk supplies in some areas while maintaining CCC purchases in other areas.

Assessments on all milk production are a penalty on producers who are serving the commercial market and creates a source of funds to purchase products from areas which are unable or unwilling to serve a greater share of the commercial market.

Likewise, quota programs would prohibit the proper allocation of resources to the production areas which are the most efficient sources of milk to a particular area because of cost and location of that milk. A Voluntary Diversion Program would also have as its main outfall the desire for producers to make temporary cutbacks in production with the goal of being in a position to return to full capacity at the end of any contract period. This does not achieve the necessary adjustment needed for long range solutions.

The price alternative will send the proper signal to producers. More importantly, the demand side of the supply-demand equation will respond with increased sales of dairy products. Recent history can only emphasize this important fact. When milk production decreased by 1 percent the commercial use of dairy products increased by 3 percent. This was the result of stable and lower prices and the improved economy in general. This increase in commercial use of dairy products has played a major role in reducing CCC purchases in the past marketing year.

Senator LEAHY. Which do you think was more important, an improved economy or lowering of prices?

Mr. DOUMA. Improved economy. We urge your consideration and support for a price and market oriented Dairy Support Program. We oppose any type of base, diversion, and assessment type of program. We oppose any consideration of a Target Price Program with deficiency payments for dairy.

A Dairy Price Support Program with appropriate and timely supply-demand adjustments will achieve the necessary stability needed in the dairy industry to maintain the milk production necessary to adequately serve the consuming public with a necessary and vital food product at the most reasonable price.

Thank you.

Senator **Leahy**. Gentlemen, are you involved in discussions with your counterparts or counterpart groups in other parts of the country on dairy matters?

Mr. **Douma**. Yes, we are.

Senator **Leahy**. There is a growing feeling by some that it is California versus the rest of the country. Certainly you have heard some of those same complaints or I assume you have. Milk producers in other parts of the country feel that they have a more difficult time getting a milk program enacted because California production will skew whatever happens elsewhere.

Do you have any thoughts about that?

Mr. **Douma**. I wish the rest of the country would come to California and look at our pricing structure and see what actually has been the case. Yes, we have our own State pricing system. During this program with the 50-cent adjustment and the support price coming down, the California bottom price, which equates to the MW price, which is the bottom price for market milk manufacturing, the California price at the bottom is $11.69. I think the MW in February was $12.20.

The high that California got through the July through December swing in the market for the MW increase, we got up to $12.17 for 1 month, the same time period that MW price was $12.72.

Now, the change in the class I, California has been accused of insulating ourselves from the assessment. Yes, it was put in as cost in our class I formula, and it affected the class I price to the extent of about 21 cents. It affected the producer quota price by about 18 cents.

The swing in the MW price at the same time in the rest of the Nation almost offset the entire 45-cent assessment. The State pricing structure and the minimum prices set are the prices, the only prices we are able to get if we do not have the cooperative structure where we are going to get overorder premiums.

Class I comparisons, just recently I wrote them down on the 35 cities that the USDA prints once a month. For February 1985 the Federal order minimum average class I price for these 35 cities is $14.55. The co-op price added on that was $15.38. The California class I price in February 1985 was $13.67.

Now, I do not understand why we get those kind of concerns from the rest of the Nation.

Senator **Leahy**. I thought you might like me to ask the question, however. I could see that you had given some thought to what might be an answer.

Mr. **Hollingsworth**. Mr. Chairman, may I make one more comment?

Senator **Leahy**. Yes.

Mr. **Hollingsworth**. It seems to me that since we started dropping the support price from $13.10 and now we are looking at $11.60, that all these price decreases while inflation is still going up are for one reason only, and that is to reduce the supply of milk in this country and to freeze out a bunch of dairymen.

We can go through bankruptcies, forced sales, and all kinds of these stressful situations, but until those cattle go to slaughter or export we have not accomplished a thing toward our goal. There is an easier way to do it, and that is all I have to say.

Senator **Leahy**. Thank you, Mr. Hollingsworth. Mr. Douma, thank you. I appreciate your being here, and you were good to come this far. Thank you.

I would like to ask Dr. Cook, Dr. Knutson, Mr. O'Connell, Mr. Anderson, and Mr. Randall to come forward, please, if they might. We will start with Dr. Cook. Go ahead, sir.

STATEMENT OF DR. ROBERT COOK, PROFESSOR, MICHIGAN STATE UNIVERSITY, EAST LANSING, MI

Dr. **Cook**. Thank you, Mr. Chairman, for the opportunity to appear before this committee. I was sitting back there thinking why I am here and I am here for a couple of reasons. One is because I think your staff are real good bird dogs. They found me in a hotel in Baltimore yesterday and asked me to appear here this morning.

Senator **Leahy**. I should point out that my previous incarnation was as a prosecutor. When my staff used to find somebody in a hotel, they were usually arresting him. I note for the record that that was not this case; Dr. Cook was there in connection with his profession and he did us a favor by coming back here. Go ahead, sir.

Dr. **Cook**. Thank you. I am Robert Cook, professor in animal science at Michigan State University, and my job is to work on the development of new technologies in dairy cattle production that improves efficiency of production. We have developed a new technology, and I think that is what is interesting the committee right now, that increases milk production by 10 percent. It is now being commercialized by the Tennessee Eastman Co.

This product has been under investigation for about 20 years, and it has been through all the appropriate research. It was approved for sale in November 1984. In November of 1984 a test marketing program was started in Michigan and this test marketing program was successful. Now Eastman Chemical Co. have authorized the sale of this new product in Michigan beginning March 1 of 1985.

The product is sold now only in Michigan, but as I understand their program they will develop a test marketing program in seven Northeastern States this year and then from there they will go to the Midwest region, and probably in 1986 they will go nationwide with this new product.

This has been a product that originated at the university. We have worked over the years in cooperation with Eastman Chemical Co., as I said, and they have commercialized it. We believe it is a major advance in dairy cattle nutrition. It gives a 10-percent increase in milk production. There is no increase in feed consumption. So there is a major improvement in efficiency. Dairy farmers now have an opportunity, I think, to use this to improve their efficiency and at the same time probably increase milk production.

Senator **Leahy**. It is an interesting idea that you raise. I raised this idea in Vermont earlier this week and I raised a question about it with the Department of Agriculture. I asked USDA what steps they have taken in embryonics? They're talking about the super cow. I have this image of one big cow up in New England. All the New England States hooked onto the cow. With three or four other cows strategically placed around the country we have the MX of cows.

I applaud what you are doing. I think it is important to lower the production costs for farmers. I hope, though, at some point everybody will figure out what all these improvements in efficiency mean. To what extent does efficiency also require people to get out of dairy farming? Are there other things that farmers can go into?

I am going to ask the staff to take over at this point for the rest of the hearing, something I rarely do. I have agreed to join in a bipartisan effort of some significance, at the request of the Republican leadership. I mention that only to indicate that it is something I am trying to do of a bipartisan nature. I am going to ask staff to listen to the rest of the testimony.

I apologize greatly. It is not a matter of lack of interest. As the staff knows, I actually sit down and read the testimony that comes in here. Today's hearing is about a matter that is of obvious importance to me, not just as a Vermonter, but as a senior member of this committee.

We are going to have to enact a dairy program that makes sense. We are going to have to keep changing and we are going to adopt a position that reflects the realities of the marketplace. If we are able to do that, we will owe a great deal of thanks to people like you who will take the time to come to help us as we grope along. None of us have a magic formula here. If any one Senator at this table could be told, "OK, you write the program. It will pass automatically and the President will sign it," I do not think any one of us would know precisely what to do.

We have the difficulty that we have to do it bit by bit and compromise by compromise.

The record will stay open for further statements and questions.

Mr. **Nirenberg**. Dr. Knutson.

STATEMENT OF DR. RONALD D. KNUTSON, PROFESSOR, AGRICULTURAL AND FOOD POLICY CENTER, TEXAS A&M UNIVERSITY, COLLEGE STATION, TX

Dr. **Knutson**. I appreciate the discussion on technology that just preceded me because my statement is very closely related to that.[1] We have done a lot of research at Texas A&M on dairy policy and on dairy technology. The most important finding of our research is that the dairy industry is on the verge of a technological revolution. This revolution holds the potential for generating chronically surplus milk supplies and marked regional shifts in milk production.

Even with the wisest policy decisions, these conditions will foster extensive economic and social turmoil in the industry in the next 10 years or the next 20 years. The majority of the milk today is produced in the Northeast and in the upper Midwest on some 150,000 farms that are characterized as typical family farm dairies.

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[1] See p. 493 for the prepared statement of Dr. Knutson.

They have from 20 to 150 cows per farm. In contrast, only 5,000 well managed dairy farms of a scale typical of the Southwest dairying could produce all of the milk sold commercially in the United States in 1985; 5,000 farms could produce all of the milk that we need in this country today.

According to USDA statistics and an Office of Technology Assessment study released this week by this committee, these large scale farms are clearly the most efficient in the United States.

In the past the dairy industry has been relatively stable. Dairy policy has played an important role in fostering this stability. In the future, Government will have a more difficult time promoting stability and if it is overly aggressive in trying to stabilize the industry, surpluses and high Government expenditures will be the rule rather than the exception.

One of the lessons of dairy policy over the past decade has been that the milk industry has great potential for generating surpluses. Unless these surpluses are curbed in their infancy, they have adverse effects on other segements of agriculture including beef producers and margarine manufacturers as we have heard in these hearings.

In light of these research results, conditions, and observations, the following suggestions are made for future dairy policy.

One, the major goal of dairy policy should be to facilitate adjustment in the dairy industry to a supply-demand balance while providing every opportunity for all sizes and types of milk producers to compete.

Two, the price support purchase program should be continued in its present form. The support price levels should by law be adjusted automatically to achieve a relative supply-demand balance. This can be accomplished automatically by using either a supply-demand adjuster as has been discussed or by a producer assessment that covers the cost of a substantial proportion of the purchase program.

Three, authorization for the current dairy diversion program should be continued on an enabling and self-financing basis. When surplus conditions warrant, it could then be implemented on a targeted regional basis without delay. With an effective supply-demand adjuster it should not be necessary to use the diversion program very often, if ever.

Four, authorization should be provided for a special targeted study of the problems of technology transfer and generation to family sized dairy farms. These are the farms that are going to be in the greatest difficulty in the next two decades.

Such authorization should consider both the extension and research dimensions of the problem. It should also explicitly recognize the role of cooperatives in developing technology transfer mechanisms.

Five, a special study should be authorized of needed adjustments in the federal milk marketing order system in recognition of changes in the economics of milk production. Such a study should have a tools orientation. The concept of a single basing point for geographic pricing of milk may now be obsolete. Major adjustments in the Federal order system are likely now needed. The precise nature of those adjustments require serious study and evaluation.

In conclusion, let me emphasize that the pace of change in the industry is accelerating. Dairy policy must be sufficiently flexible to cope with that change. This can best be accomplished with programs that automatically adjust support prices to market clearing levels.

Even with such a policy change special attention will need to be given to surplus and structural change issues evolving from technological dynamics of the dairy industry. Thank you.

Mr. NIRENBERG. Thank you very much. Mr. O'Connell, you are next.

STATEMENT OF RICHARD T. O'CONNELL, PRESIDENT, CHOCOLATE MANUFACTURERS ASSOCIATION

Mr. O'CONNELL. Thank you. My name is Richard T. O'Connell.[1] I am president of the Chocolate Manufacturers Association. CMA represents about 15 manufacturers of chocolate and cocoa products. We provide a wide variety of chocolate products including baking chocolate, chocolate confections, chocolate syrups, and cocoa for drinking purposes and chocolate flavored milk.

Our members are also basic manufacturers and ingredient suppliers for ice cream, bakery goods, cereals, biscuit, and cracker products. We use about $430 million worth of milk annually, and we are the third largest user of milk for processing after cheese and ice cream.

Milk chocolate consists of about 90 percent of the total chocolate confectionary sales. About 20 percent of a chocolate bar is milk. In keeping with the directive given at the beginning of the hearing, I will not comment on the Diversion Program, except to say we hope it ends on March 31.

CMA has studied the possible consequences of three proposals: One, continuing the present dairy program assuming the price support will be $11.60 after July 1; two, the administration's dairy proposal; and, three, the dairy program submitted by Senator Helms.

The details of our appraisal of these alternatives are in our longer and more comprehensive testimony which we have submitted for the record.

In short, we believe the continuation of current policy means a continuation of current problems, and we are concerned that the administration's plan will lead to instability and price swings over the next several years.

The program on which we want to offer comments today is S. 616, the comprehensive legislation introduced by Senator Helms. Under the Helms bill the dairy price support for fiscal 1986 will be $11.60 per hundred weight. In following years the Secretary would set milk price support levels as necessary to stabilize government purchases between 2 and 4 billion pounds annually.

We are in favor of a program which limits Government purchases. We believe S. 616 would achieve a close balance between milk supply and use in the later years of the proposal; by gradually reducing supports it would avoid incentives to overproduce. It would also avoid price instability. However, we have some problems with the first 2 years of the proposed program. Because the price support remains at $11.60 per hundredweight for fiscal 1986 Government costs will remain high as net removals increase.

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[1] See p. 496 for the prepared statement of Mr. O'Connell.

Under S. 616 we predict Government costs of $1.9 billion. Since purchases will be 8.2 billion pounds in fiscal 1987, the price support would be reduced only cents 75 per hundredweight when a $1 per hundredweight reduction is needed.

In general, S. 616 adjusts dairy price supports about 1 year behind the need. We believe the price supports should be reduced at least 50 cents per hundredweight in April 1986 with another 50 cents per hundredweight in October 1986. It is important to make the reductions early and steady in small increments. We have two other concerns about the Helms proposal. We believe the Secretary should be given more discretion and this is included in our written testimony.

We also believe the Secretary should be required to examine the regional implication of price support changes in each of his annual projections. The industry is very different from region to region. Some of the recent problems have come from different regional responses and failures to respond. More comprehensive regional analysis each year would improve the accuracy and usefulness of these forward looks.

In my testimony I have reviewed a number of proposed changes to the dairy program, some rather simple, some more complex. CMA believes simplicity is the key to an effective dairy program. The dairy program has been considered by Congress seven times in the last 4 years. All kinds of proposals have been attempted.

The one simple proposal which has never been adopted is the easiest to implement and the most economically rational. And that is simply lower the price support. A lower price support will decrease production, decrease Government purchases and costs, and decrease the retail price of the product. The elimination of excessive surpluses and the decrease in retail prices will balance the interests of the producer, the consumer, the taxpayer, and the user. What more could anyone want from a dairy program? Thank you.

Mr. NIRENBERG. Thank you very much. Mr. Anderson.

STATEMENT OF ROBERT F. ANDERSON, EXECUTIVE DIRECTOR, NATIONAL CHEESE INSTITUTE AND AMERICAN BUTTER INSTITUTE

Mr. ANDERSON. My name is Robert F. Anderson. I am the executive director of the National Cheese Institute and the American Butter Institutes. I am pleased to summarize the views of the processors of over half the milk produced in this country. The full text has been submitted.[1]

Our members' primary purpose is to supply butter and cheese to the commercial trade. However, we also have the responsibility under the Dairy Price Support Program to provide the processing, packaging, and sales link between the farmer and the Commodity Credit Corporation. We assume this task willingly because experience has shown the importance of that link to market stability in the dairy industry. Dairying is in many ways unique. This uniqueness is understood by governments of countries with substantial dairy industries.

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[1] See p. 498 for the prepared statement of Mr. Anderson.

Each of these governments have dairy policies that are intended, among several objectives, to promote stability in the dairy industry. We are here today to discuss the roles our Government should take, and I think we have probably discussed it quite a bit. It is awfully hard at this late date to say anything particularly new except to say that it is very heartening to see the dairy industry to united behind one proposal. I do not think the Government can say in the future the dairy industry was not united behind the proposal, and that is stability in the dairy industry.

ABI and NCI have just conducted a lengthy and profound review of the various dairy policy proposals. As a result, we wish to go on record as favoring a dairy policy which would utilize a Commodity Purchases Program to bring about a supply and demand market within a 5-year period. We favor this policy because it is positive, workable, and it is a workable program.

I suppose each industry believes they are different and in need of special attention. Hearings such as this one will sort out the facts and give you folks some ideas. We submit the following factors are in fact unique to the dairy industry and not other agricultural industries and are important enough to deserve special legislative consideration.

One, production of milk requires special inputs. We have heard testimony to that effect.

Two, choice of the rate of output is severely limited for milk production.

Three, entering or leaving milk production involves the major shift in capital structure.

Four, harvesting of a field crop is a single time thing. In contrast, milk is harvested two or three times a day every day of the year. Milk, being perishable, must move off the farm in a rapid and orderly manner. Milk's value on any given day is a function of the supply available that day and the demand. The flow of milk, not the unit of milk, must be priced.

Five, the processor assembly of milk is costly and must be scheduled well in advance to prevent quality deterioration.

These are major unique factors which distinguish dairying from other agriculture industries. However, the underlying conditions that make the dairy industry in the United States work is stability. And that is what we are all talking about today. Milk cannot be set aside to wait for the market to open up. It must be sold.

The Product Purchase Program we recommend provides that measure of stability which permits the flow of milk to adjust to market needs in an orderly manner. Without that stability we could again witness the chaotic market conditions I saw as a youth in Iowa. I am sure Senator Melcher might have joined me on Dead Man's Hill south of Sioux City to see those very, very scenes as farmers fought one another and there were bloody battles. Milk was tipped over and flowed all over the ground mingled with their blood. It was a terrible scene.

As a kid, I can just tell you it does not ever need to be repeated again. Congress took action to bring back stability into the dairy industry, and since 1949 the Dairy Price Support Program has for the most part successfully accomplished its goal. For all its 35 years the program has assured the consumer an adequate supply of dairy products at a reasonable price, and the dairy farmer was assured a market.

The undergirding principle of product purchases remains today and for the future the major factor needed to maintain the stability vital to the dairy industry. It is also apparent that the price support level works better if it is a floor rather than a ceiling to the market. Events also indicate the original percent of parity equivalent index is no longer relevant.

The key to a workable Product Purchase Program is to keep the support price at a level which is slightly below market clearing prices. This will assure a measure of stability to the producer and the consumer without overloading the Government warehouses or the need for the market disruptions of giveaway programs.

Dairy price adjustments for the near future are expected to be reductions using some type of triggering level probably based on net market removals. Therefore, the cheese industry, which must store its product several months before it is ready for the market, recommends that the adjustment be made once a year and that it be made in April. October is a bad time for adjusting prices. This is a time when the seasonal increase of production and an adjustment in the market is expected. Further, the announcement should be made in early March so that the commercial market can react and make adjustments to minimize inventory losses. That is based on the factors that are occurring right at this very moment. People are not buying butter or cheese. They are waiting for the drop in price.

The cheese industry also urges CCC to increase the price at which Government-owned cheese is sold back to the trade from 110 to 115 percent of purchase price. This would encourage commercial long hold storage. In addition to this action to encourage commercial storage of cheese the Government should also state that any reduction in a sell-back price in effect when a support level decrease is announced will not be lowered for 3 months. This protects the commercial inventory of stored cheese from being devalued by a lower priced Government-stored cheese.

In a different vein, we believe any plan that could place 200,000 dairy farmers on a list to get supplement deficiency payments under a target pricing system would not get Government out of dairying. Furthermore, the target price level would be a bone of contention fought over and argued about within these halls and everywhere and nobody would be a winner.

In conclusion, we recommend that any revisions to the dairy program should retain the product purchase provision as the undergirding principle that would maintain the stability so essential to dairying. This feature should be coupled with a procedure that would carefully, efficiently, and effectively bring about a more balanced supply and demand market in which the Government is not the primary market or price leader.

The purpose of the program should have the Government as the silent, noninvolved partner.

Mr. **Nirenberg**. Thank you. Mr. Randall, you are next.

STATEMENT OF DONALD A. RANDALL, EXECUTIVE VICE PRESIDENT AND GENERAL COUNSEL, NATIONAL INDEPENDENT DAIRY FOODS ASSOCIATION

Mr. RANDALL. Thank you.[1] The National Independent Dairy Foods Association is a national trade association of independent dairy processors, manufacturers, and distributors of fluid milk and a variety of dairy food products.

The concerns that we have are that as we go to a market oriented program that we will create great imbalances in the market because of the current structure of the various entities that are involved in production of the milk products and in marketing it.

We generally support the basic principles and some of the specific provisions of the administration's bill and also support Chairman Helms' bill. We subscribe to MIF's philosophy with respect to the farm support program.

We are more than concerned about the program in the sense that we believe that Congress must not place the Agricultural Marketing Act off limits and the thousands of regulations that apply to it.

It will not be easy to get into other areas, but the enormity of the problem demands that Congress revise the entire system, not just the price support program. It is necessary to change the act to make it more effective, fair, and more compatible with our new market directed, oriented industry.

This is why we propose specific amendments to the AMAA. There are other amendments that should be under consideration, but we think that this is a basic start. Although we support the administration, we do not want to go the full mile that they have called for here, and we think that if we fail to address the Agricultural Marketing Adjustment Act inequities, that we will see further deterioration in the proprietary processing facilities throughout the country.

From 1975 to 1985 we had a drop from 7,000 to about 1,200 in that category.

NIDA's members are concerned about the large interstate, regional cooperatives who have immense marketing power. They have the power to impose over-order premium prices for fluid milk and to influence market order provisions. Our small, tax paying, proprietary companies need to be assured that Congress will not create a situation in which we will become victimized by a reorganization of our market oriented dairy policy.

I have an attachment that I would like to submit for the record which are our proposed amendments themselves. I will try to be very brief to wind up with these.

No. 1, is to clarify the public consumer interest in the market orders by requiring the Secretary to make specific public consumer interest determinations prior to issuing or amending any of the orders.

No. 2, direct that the cooperatives are required to make full disclosure to their members of the gross sales receipts for their milk and all accounts withheld, deducted, or charged against their milk checks. We believe that the failure of the cooperatives to inform their members about the costs of their processing and manufacturing has directly resulted in an overprocessing capacity in the United States to a great degree, and they have mortgaged the milk checks of their members by doing so. We think that a uniform requirement of disclosure would help to bring some discipline to the cooperatives in that area.

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[1] See p. 501 for the prepared statement of Mr. Randall.

No. 3, require cooperatives to pay Federal order minimum prices to members in cash when cooperatives compete with noncooperative handlers.

No. 4, to make block voting optional; that is, the Secretary could allow block voting by cooperative managers for all of their producers at his discretion, but the Secretary would be required to take a sample poll on market orders and changes. The independent producers are disenfranchised by the block voting procedures.

No. 5, prevent any added barriers in milk market orders by expanding the antibarrier section to prohibit any regulations which impede the free-market movement and sale of milk and dairy products. I was glad to see that Senator Kasten and Dr. Knutson had both indicated an interest in the changing of the market orders.

No. 6, give concurrent jurisdiction to the U.S. Attorney General in the Justice Department to enforce the Capper-Volstead Act for undue price enhancement.

And while these amendments are not all inclusive, they are a good start and we think necessary in this year. We do support a more careful study of the market order issues, but we do not believe you can wait until 1990 to get the results. You would have a disaster among the proprietary processors in the meantime. Thank you.

Mr. NIRENBERG. Thank you very much. Let me state that the record will be kept open as Senators will likely have some questions to send to each of you.

I do have some questions here for the combined panel. Dr. Cook, I want to thank you for joining us today. It was on very short notice. As you are aware the committee is very interested in technological developments that are facing the industry. I was wondering, how long do you project it will be before your feed additive is available to farmers anywhere in the country?

Dr. COOK. I think that probably this will be marketed nationwide in the middle of 1986. But that does not mean that it will penetrate the total dairy market by the middle of 1986. It depends on the farmer acceptance. I think it is a useful product, and I would hope that within 3 years it would penetrate at least 80 percent of the market.

Mr. NIRENBERG. Do you have any basis for making a prediction as to the extent to which the product will be accepted by farmers?

Dr. COOK. Well, it seems from the first test marketing program that it is going to be readily accepted. At least 65 percent of the farmers that have used it said they would purchase it. So I think it is going to penetrate the market rapidly.

Mr. NIRENBERG. When the bovine growth hormone is available commercially, will farmers use both your additive and the hormone or will they have to choose between these two products?

Dr. Cook. Well, that is a point of discussion now in the scientific community, and it is really not known. The introduction of bovine growth hormone is probably 5 to 7 years away. So we have to see what the acceptance is of our product. But I suspect that it is probably one or the other that may be used.

Mr. Nirenberg. What is the cost-benefit ratio that a farmer will experience using your product?

Dr. Cook. The industry marketing this now is pricing it so that the farmer has a 2 to 1 return on his investment. Of course, if it penetrated the total dairy industry, we calculate it would amount to probably an increase in efficiency of about $1 billion annually. Of course, that is assuming that it penetrates the total dairy market.

Mr. Nirenberg. That is $1 million?

Dr. Cook. $1 billion.

Mr. Nirenberg. Thank you. And a last question, this product, does it affect in any way the dairyman's feed requirements?

Dr. Cook. It does not. Usually for most technologies that have been developed for dairy cattle nutrition, if a cow produces more, she eats more. This is not the case for this product. The cow produces more and consumes the same or in some cases even less feed. So it is a major improvement in efficiency.

Mr. Nirenberg. If dairymen start calling up the committee to find out more about where they can get your product, where do I send them?

Dr. Cook. I will pass the buck to Eastman Chemical Co., I think, in Kingsport, TN. That is the headquarters for the marketing division. They are the people to talk to.

Mr. Nirenberg. Thank you. Dr. Knutson, I understand you participated in the OTA report.

Dr. Knutson. I certainly did.

Mr. Nirenberg. Did the report at all consider the product which Dr. Cook and his associates have produced?

Dr. Knutson. It did not consider that specific product. It did consider the bovine growth hormone as one of the technology changes, and as you know, the conclusion of that report was that as these new technologies come into use they are going to technically favor larger scale dairy farmers because they tend to be the first adopters of those new technologies.

Mr. Nirenberg. As you have said a couple of times, the dairy industry will trend towards larger farms generally in the Sun Belt. Is there anything that Congress can do to change or buffer this trend and would you specifically recommend any of these actions?

Dr. Knutson. Well, I think there are two important areas of action, one related to the issue of research and extension. I think that there really needs to be a major thrust, as Senator Kasten indicated toward research and extension involving moderate sized dairy farms, target programs.

Presumably these farms would be concentrated in the Northeast and the upper Midwest. The research would emphasize the production of technologies that are not size biased—that do not favor large farms. The effort would target extension programs to technology transfer related to moderate size farm survivial The second point I would make relates to the Federal milk marketing order system. As you know, we have priced milk on the basis of Eau Claire plus transportation costs for most of the United States. That has resulted in a much higher price in southern regions of the United States than in the Midwest.

The original concept of Eau Claire plus was that Eau Claire, WI was the center of the most efficient milk production region in the United States. Now the OTA study—and I might say the USDA studies indicate this as well—the upper Midwest, the Northeast is no longer the most efficient place to produce milk. Under those circumstances one could say maybe it ought to be Tulaire, CA plus as your pricing base. I am not suqgesting that, but what I am suggesting is that the old basis for pricing milk is no longer relevant to the industry. We need to take a look at what kinds of basing points are needed in the milk industry to get milk moved geographically where it is needed, but not to generate high production of milk in regions where you do not really need it.

So I think the Federal order change systems and the research and extension systems are the two areas where you need major new studies and emphasis in terms of helping traditional production regions to survive and make an efficient industry.

Mr. NIRENBERG. Well, please feel welcome to provide the committee with specific recommendations in that regard. I was wondering, you had said that our entire milk supply could be produced by 5,000 farms in the Southwest. Is there any geographical or other barriers that place a limit as to how much production in the Southwest could grow?

Dr. KNUTSON. Sure. I did not mean to imply that those farms would all be located in the Southwest. What I meant to say is that we have now technologies in the dairy industry which favor some very, very large scale farm operations. These technologies are not just the bovine growth hormone or embryo transplant technology. There is a whole host of new technologies coming on board.

Presumably the large scale farms are going to be located throughout the U.S. geographically. There are limits on how much milk you would want to produce in the Southwest, for example. Obviously, there is no reason why the CCC should be buying all of the surplus dairy products from California. But, on the other hand, you can see why increased cheese production in California might be justified.

The point is that not all the milk is going to be produced in the Southwest, but that it is going to be produced on larger scale farms unless we do some things to neutralize the effect on the middle sized family farm operations.

Mr. NIRENBERG. Thank you. Mr. Randall and Mr. Anderson and Mr. O'Connell, we all heard earlier today a discussion about consumer prices. Do you have any thoughts as to the degree in which reductions of support level are passed on to the consumers in each of your product areas?

Mr. O'CONNELL. A few years ago the Council on Wage and Price Stability did a study, and it concluded that our industry—that is the chocolate and confectionary industry—was one of the better ones for passing along price changes to the consumer. We have to take into account about 55 percent of our total costs of production are ingredients and our main ingredients are cocoa products, chocolate, sugar, and milk. There is a blend of prices depending on the coordination of those four ingredients.

But by and large in nonbar goods—and I want to qualify that—we try to reflect the price changes. Now in bar goods—that is the chocolate bars—we use a nickel-ending price. In other words the prices is times 5¢. And price movement has an accordian effect. Prices increase until we reach the next nickel-ending price and as further ingredient prices, inflation, labor costs, or other operational costs rise the bar good prices are raised another 5 percent.

Basically this has been the historic price movement since inflation began in the late 1960's.

Mr. NIRENBERG. Mr. Anderson?

Mr. ANDERSON. I do not have anything specific except to look at the record which indicates that both butter and cheese prices have traditionally been—the index has been under for regular foods.

They go up faster than they come down. I know that. That is the historic level and industry does not have much to say about that. But there are adjustments made weekly through the marketplace and I think they go through rather rapidly.

Mr. NIRENBERG. Thank you.

Mr. RANDALL. The one observation that I would make is that the artificial barriers that are established through the cooperatives' manipulations of the market orders very often influences the absolute price that the processor has to pay for it. The co-ops' ability to unilaterally impose overorder premium prices, for instance, above the support price creates an artificial increase in the price. While you may be reducing the support prices they may be raising them with artificial barriers and artificial price enhancements of that nature.

So you are not going to get an offset in reduction of cost at the manufacturing level. Now, given where we are going with a market-oriented policy where market forces can work, then I think you will see the pass-through because manufacturers in competition with one another are going to reflect the most efficient, cost productive price at the consumer level that they can in order to compete. So I think we have something to look forward to, but not as long as the market orders and barriers that exist together with the power of the cooperatives to raise prices unilaterally in overorder actions.

Mr. NIRENBERG. Mr. Randall, in your testimony you raise a number of concerns about the internal operation of the cooperatives. Do you find that farmers share these concerns or are not aware of them?

Mr. RANDALL. Our members tell us that they do not understand. The farmers, the members themselves of the cooperatives do not have a democratic understanding of what their cooperatives are doing in manufacturing and how that cost is imposed upon them. That is why our amendment suggested that if they are going to get into the processing side of it, the members themselves should have an understanding of what those manufacturing costs are going to be and not have it simply passed through by deduct to their milk check. Make them go directly to the members and tell them here is what we want to do. Help us raise the capital and do it just like private industry does it. Then you will have discipline in those decisions to produce and to process. They now are undisciplined in that regard.

Mr. Nirenberg. Mr. Randall, I have heard that there is about 70 percent more nonfat dry milk production capacity than is required by commercial demand. Does this sound reasonable and is there a comparable excess capacity for butter and cheese?

Mr. Randall. I do not think I could comment on that particular aspect of it.

Dr. Knutson. Let me comment on that. There is a substantial excess capacity in butter and nonfat dry milk simply because that is the cheapest way to process residual supplies of milk in a market. In the southern markets throughout the United States you have to have some facilities to handle flush milk supplies in the spring of the year. Instead of building a large cheese plant, which is much, much more expensive per hundred pounds to process, you build a butter-powder plant. Therefore, I would argue that there is a justification for substantial excess capacity in the butter-powder segment, while you would have less justification for excess capacity in cheese.

Mr. Anderson. I guess I do not know of any excess capacity in cheese. There are some large plants converting to cheese and we may see excess capacity in cheese, certain styles of cheese; cheddar, for example. We are as an industry trying to convert to other styles of cheese, making the imported styles so that those are available.

Mr. Nirenberg. Thank you very much. Once again we appreciate you gentlemen having such patience serving in the cleanup slot of our lineup. The record will be kept open for additional comments. Thank you very much. Meeting adjourned.

[Whereupon, at 1:15 p.m., the committee recessed, to reconvene at 9:30 a.m., Monday, March 25, 1985, in room 328–A Russell Senate Office Building.]

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

Feed Grain Issues

MONDAY, MARCH 25, 1985

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, at 9:41 a.m., in room SR-328-A, Russell Senate Office Building, Hon. Thad Cochran presiding.

Present: Senators Cochran, Zorinsky, Melcher, Dixon, and Heflin.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. The committee will please come to order.

Today we continue our hearings in connection with the writing of the 1985 farm bill. Today our hearing focuses on the feed grain programs. These include the programs for corn, sorghum, barley, and oats.

The outlays from the Commodity Credit Corporation under the 1981 farm bill for these programs are estimated by the Department of Agriculture to be $17.8 billion. This represents 28 percent of the total net expenditures under the Federal Government's farm program.

It is interesting, though, to observe how widely these outlays have fluctuated from one year to the other. One year there was $6.8 billion in outlays compared with a surplus—a negative $758.4 million—in another year. This indicates a great deal of instability as far as cost to the Government and projected revenues for farmers under these programs. We are interested in looking at ways to improve the opportunities for farmers to operate at a profit and to bring greater stability into the feed grain programs.

We are happy this morning to have Senator Larry Pressler of South Dakota as our leadoff witness for this hearing. Senator Pressler is one of the leaders in the Senate in the agriculture area, even though he is not a member of this committee.

We welcome you, Senator, and you may proceed as you choose.

STATEMENT OF HON. LARRY PRESSLER, A U.S. SENATOR FROM SOUTH DAKOTA

Senator **Pressler**. Well, thank you very much, Senator Cochran, and my colleague Senator Grassley for this chance to testify before the Senate Agriculture Committee, I shall be very brief.

I want to start off by noting something in this morning's paper that I think is of significance to agriculture. I noted that the President said on Saturday night at a gridiron dinner, which is off the record, but the Washington Post has the President quoted in a humorous note that he quipped "I think we should keep the grain and export the farmers." Now, the Post goes on to say that the joke fell flatter than a bad wheat crop. I was present. The Post asked me what I thought afterwards, and I said I did not think it was funny and I did not laugh. I know that these occasions are meant for good humor and mirth. I do not mean to be a spoil sport, but at a time when so many farmers are in trouble, I think it indicates a level of insensitivity by the White House, by the writers and the President.

For example, if large numbers of workers in this country were unemployed and suffering, I do not think that the President of the United States would make a joke about them at an annual dinner of this sort.

I do not mean to be a bad sport, but I think some word of apology or explanation should be issued by the White House on this quote. I think it is an unfortunate quote, and wanted to say that I sense there is a level of insensitivity at some levels in the White House if not the President himself on this issue. That is my feeling. I wanted to make that a part of the record.

Turning to my statement, Mr. Chairman, I would like to summarize and to read parts of it into the record. I will cover some of the highlights.

I first would like to thank you for allowing me to testify today on the 1985 farm bill. This committee should be commended for the extensive hearings it is holding on this important legislation. I understand today's hearing will focus on the feed grains program of the farm bill, and I will focus my comments to the feed grains program, but would also like to make a few comments on the other sections of the farm bill.

As you know, earlier this year I introduced S. 250, legislation to authorize a feed grains program, as well as programs for wheat, export promotion, and soil conservation. S. 250 was the first major farm bill proposal introduced this year. The key part of the grain support program in S. 250 is a tiered target price program. For example, a corn farmer would receive a target price of $3.13 per bushel for production up to 10,000 bushels, a target price of $2.98 per bushel for production between 10,000 and 20,000 bushels, and a target price of $2.83 for production between 20,000 and 30,000 bushels. There would be a limitation of 30,000 bushels of corn per farm that would be eligible for farm price support payments. There are several benefits to a program of this type:

First, the family farm and preservation of the family farm system are important issues of concern in rural America. I might add, Mr. Chairman, in this mornings' Post also, not to be quoting the Post continuously here, but Ward Sinclair had an article about the enormous productivity of many of the big California farms. Some of these farms have subsidized irrigation and other benefits. A dryland family farmer can hardly compete against this. The plan that I am putting forth would give some recognition to the smaller producer.

The tiered target price program responds to that concern by directing price support benefits to family-size farmers and limiting the amount of benefits large corporate farms would receive. The bushel limitations for each commodity were based on national average production of those grains per farm. Along with the bushel limitation, there would be a $20,000 total payment limitation. Such a program would substantially increase support for family farmers while holding program expenses within budget constraints.

Two, the cost of farm programs potentially could be reduced significantly. If payments were limited to the levels specified in my bill, we would not have producers receiving millions of dollars in farm program benefits as we had in the PIK Program. The need for acreage reduction programs and payments, as well as their expense, would be reduced. Producers would not have an incentive to increase acreage or their production basis if they did not receive deficiency payments based on their total production. Without the constant pressure to produce the maximum number of bushels, farmers would very likely become more diversified and increase soil conservation efforts.

Three, our grain would be competitive on the world market. S. 250 contains a provision for a commodity loan program, but it would be set at a market clearing level. The loan program would return to its original purpose. Limitations would also be placed on the amount of grain that could be put under loan. Production beyond the support limits would be sold on the open market for whatever price it might bring. A farmer might produce 100,000 bushels of corn. Thirty thousand bushels of that corn would be eligible for support payments. Seventy thousand bushels of that corn would be sold on the open market. This would make U.S. grain more price competitive on the world market and increase our agricultural exports.

I believe this concept would help both family farmers—by providing them with an adequate price support system and increased exports—and the American taxpayer—by potentially reducing the cost of farm programs to the Federal Government. I would hope that the committee, during its consideration of the 1985 farm bill would carefully consider this concept of a tiered price support program.

Any feed grains program or general farm program must have increased agricultural exports as one of its key provisions. It is crucial that we aggressively promote our farm products abroad and expand our export markets. This can be accomplished by the continuation of a strong Public Law 480 program, the Blended Credit Program, and the GSM-102 Export Credit Guarantee Program.

The development of an intermediate-term export credit program and the use of barter trade and long-term grain agreements should also be included in the 1985 farm bill. Effectively increasing domestic farm prices through the market requires that we all agree on agricultural export expansion.

The feed grains program must also be compatible with an effective soil conservation program. If American agriculture is to continue to produce record crops, it is essential that we reduce soil erosion. Conservation programs should include the "sodbuster" provisions to discourage the further plowing of highly erodible land, and also a program to encourage farmers to invest in soil conservation projects, such as shelterbelts.

In conclusion, I once again urge the committee to carefully consider the target price concept and other features of S. 250 when the 1985 farm bill is drafted. I believe the concepts in S. 250 provide many advantages which would help to reduce farm program costs, while still providing an adequate safety net for family farmers.

I thank you for the opportunity to testify, and I would be happy to answer any questions you might have.

I know you have many other witnesses, and I thank you very much.

Senator COCHRAN. Thank you, Senator, for being here and contributing to our hearings. We appreciate having the benefit of your suggestions and also having the opportunity to hear you outline your bill, S. 250. It certainly is an interesting proposal and one that deserves the careful consideration of this committee.

Thank you very much.

Senator, do you have any questions of the witness? Senator Dixon?

Senator DIXON. I want to thank Senator Pressler for making that important contribution to the work of this committee. We know of his warm support for the needs of agriculture in this country, and we thank him for the benefit of his advice this morning.

Senator COCHRAN. We are to have Senator Chuck Grassley here this morning to present to the committee one of the witnesses who will testify later in our hearing. We have not reached that part of the agenda that would call for his constituent to testify, but Senator Grassley, please proceed to tell us about your constituent who is here this morning and whatever other comments you would like to make to the committee.

You are recognized.

STATEMENT OF HON. CHUCK GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. First of all, I want to compliment Senator Pressler as well for his statement, his work and his leadership in this area. He referred to the Washington Post. Also I would refer to some articles, six I think, that are running starting today on the farm problem in the Midwest. Maybe some people thought when the farm bill was vetoed, that somehow there was no problem out there. I think that the attention this is getting in the national press brings greater importance to the hearings that you are holding, Senator Helms, under his leadership, is giving consideration to, our farm programs, because the 1981 farm bill is running out and must be reauthorized this year.

You bring before this group many very important witnesses, general farm groups, as well as the commodity groups. I know that probably everyone of these national leaders are outstanding voices for agriculture and a very important resource for this committee.

But I have the pleasure of presenting not only a national leader but also a friend. He is going to be, I think, on the first panel on your program this morning. He is Varel Bailey from western Iowa. He is president of the National Corn Growers Association. He is a family farmer raising livestock, grains, and specializing in corn. He is also a community leader, political leader in Iowa as well. He rose through the ranks of the Corn Growers Association to be their president now. He is spending a great deal of time in Washington this spring as head of that organization, devoting the time that ought to be put in, not only for his interest in agriculture generally, but as a leadership in that organization.

I have had an opportunity to work with this organization for a long period of time. They do espouse a free market philosophy, but see agriculture and Government working together to preserve the important aspect of food production for all of our people.

The National Corn Growers Association spends a great deal of their resources in education not only of Washington but also of the general public. They recognize that agriculture is only 3 percent of the population and that is a big job that everyone of the farmers in the country has of communicating to the public at large the importance of agriculture, the problems of agriculture, and the necessity for working together to preserve this important segment of the economy, not only for the 3 percent of the population that have income from farming, but also because one out of five jobs in the country is directly or indirectly related to healthy agriculture.

In the upper Midwest, particularly my State, 7 out of 10 jobs are related to agriculture. So whatever the situation is with agriculture, it has a ripple effect, affecting not only farmers, but people in the food chain, and eventually consumers. That is why these hearings are very important. That is why the 1985 farm bill is so important. That is why the National Corn Growers Association, through Varel Baily, as their spokesman today, should be listened to and I know will be listened to by this committee.

So, I thank you, Mr. Chairman. I thank Varel for being here, taking time away from his family and his farm operation, and for being a leader to help us solve this problem, and for being a spokesman generally for agriculture as well as just for the corn growers.

Thank you, Mr. Chairman.

Senator **Cochran**. Thank you, Senator, for being here and for presenting Mr. Bailey to the committee.

Senator Grassley, of course, is a very influential Member of the Senate, not only on agriculture issues, but others as well. We appreciate your being here, and we appreciate the advice and counsel and cooperation that we know we will have from you as we proceed to develop the provisions of the new farm bill.

Thank you very much for being here.

Senator **Grassley**. Thank you, and I am sorry I cannot stay for the testimony. But I will have a chance to—I have studied the program that they will present, but I also want to study the committee's reaction.

Senator **Cochran**. Thank you, Senator.

Senator **Dixon**. Mr. Chairman.

Senator **Cochran**. Senator Dixon.

Senator **Dixon**. May I inquire—are we going to do this in the panel with several of the witnesses at the same time?

Senator **Cochran**. We have a panel including Mr. Bailey; Jerry Franz, who is vice president, Legislative Affairs Committee of the Corn Growers; and Michael Hall.

First, though, we are scheduled to hear from John White, who is your constituent, before we hear from the Corn Growers Association.

Senator **Dixon**. If I might have the privilege of introducing an old friend.

Senator **Cochran**. Certainly.

Our next witness is scheduled to be James Provan, who is a member of the European Parliament. I am not sure he is here at this time.

We will go ahead, then, to Mr. White if he would come forward. He is president of the Illinois Farm Bureau, and we recognize Senator Dixon to present him to the committee.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Senator **Dixon**. John, would you mind sitting up there by Senator Cochran?

This is my friend, John White, president of the Illinois Farm Bureau. Thad Cochran, the distinguished Senator from Mississippi.

Mr. Chairman, I have the distinct pleasure of introducing an old warm friend, John White, president of the Illinois Farm Bureau. He has contributed much in the course of his years of service to the Farm Bureau and to the agricultural movement in our State. I am sure that all he calls to the attention of the committee this morning will be very valuable to us.

I might say that his organization was supportive of the amendment that this Senator offered during the course of the recent debate on the Ethiopian relief bill. You will recall my amendment provided for a 50-percent advance against the CCC Fund for the farmer in the spring against what he would receive after harvest, all with a $50,000 cap.

We all know the history of what occurred there. We have been recently, may I say to the Chair, negotiating with distinguished Members on your side, including Representative Bob Michel, the Republican leader in the House; Representative Ed Madigan, an old friend of mine from my Illinois legislature days, concerning the modification of that bill, something along the lines of a third advance and a $30,000 cap, a credit elsewhere test, and some other things that might make it more palatable to the administration. I regret to say that so far we have not had much progress.

But I would like to publicly acknowledge the important value that the prestige of John White in the Farm Bureau had in the cause as we proceeded in the Senate. I know that everything he gives to us this morning, Mr. Chairman, will be a big value as we undertake the very serious problem of trying to mark up the farm bill in 1985 that adequately addresses the problem of American agriculture. I am pleased to have the distinct privilege, Mr. Chairman, of introducing this fine man and this great leader of my State to the distinguished chairman.

Senator COCHRAN. Thank you, Senator. Thank you very much.

Mr. White, you may proceed.

We have a copy of your statement which we will put in the record in its entirety, and we encourage you to make any summary comments that you choose to.

Thank you for being here.

STATEMENT OF JOHN WHITE, JR., PRESIDENT, ILLINOIS FARM BUREAU, BLOOMINGTON, IL, REPRESENTING THE AMERICAN FARM BUREAU FEDERATION

Mr. WHITE. Thank you, Mr. Chairman.

Thank you, Senator Dixon. I appreciate your comments.

In reference to the comments in supporting the advance loan concept, I think the immediacy of the problem is evident by the estimate we took supporting that activity to try and get the farmers back in the field this spring and then get on to meaningful farm legislation in terms of the farm bill of 1985.

Well, the American Farm Bureau Federation is the Nation's largest general farm organization with an extensive membership in 48 States and Puerto Rico. As indicated, I do serve as president of the Illinois Farm Bureau and am a member of the board of directors of the American Farm Bureau Federation.

As you indicated, Mr. Chairman, you do have a copy of my statement so in that vein I will just highlight several areas of our proposal, and hoping that the entire statement might be given consideration some other time.

Farm Bureau policy is debated, amended and revised by voting delegates from each of our member States. At our 66th annual meeting in January, our delegates adopted policies regarding farm programs in general and policies specific to feed grain programs. Our general farm program policy states:

We support a farm bill which will:

One, maximize long-term opportuntities for profit in agriculture;

Two, reduce existing incentives for overproduction at home and abroad;

Three, ensure price competitiveness for U.S. farm products in world markets;

Four, provide opportunities to reduce stocks through production adjustments and/or expanded demand;

Five, assure consumers of adequate supplies of efficiently produced products they wish to consume;

Sixth, cause a supply reduction program to be implemented when carryover exceeds workable levels;

Seven, provide target prices as an income supplement for farmers to help them make the adjustment to a market-responsive agriculture;

Eight, provide loan levels for all major export commodities to facilitate orderly marketing and price competitiveness. These levels should be related to a 3- to 5-year average domestic price. Loan levels should not provide incentives for production that exceeds demand in domestic and world markets. These levels should be adjusted annually by no more than 10 percent; and

Nine, recognize that all commodities are interrelated and any change in supply, demand or price of one affects the others.

Feed grain producers have experienced unstable market conditions for several years. Many actions taken by Government in an attempt to provide market stability have instead had a destabilizing impact on the industry. The PIK Program, supported by the American Farm Bureau Federation, coincided with widespread drought in the Midwest and resulted in a corn crop in 1983 that was approximately half of the production in 1982. Corn prices rose in response to tighter supplies which benefited feed grain producers that had a crop to sell, but also caused livestock producers to pay more for feed. The short crop allowed the industry to reduce carryover but not enough to move all of the supplies out of the Farmer-Owned Reserve Program.

We are now back on the increasing production treadmill. Carryover supplies increased last year and are expected to increase again in 1985–86 if normal weather patterns prevail. These increases occurred despite production programs in effect in both years.

As a result of these polices, Farm Bureau has developed a legislative proposal for the 1985 farm bill which is market responsive and fiscally responsibile. We believe that by tying loan and target price levels to an average of market prices, the signals that producers receive when making production decisions, will be founded in market reality, and not in political expediency.

I would like to offer then more detail to the committee on the provisions of our proposal that most directly affect feed grain producers.

Now we support loan rates that are tied to a 3- to 5-year average of market prices for wheat and feed grains. We would set the loan rate at 75 percent of a 5-year average of domestic prices, excluding the high and low valued years. To avoid wide fluctuations in loan rates, however, we propose that the rates be adjusted by no more than 10 percent in any year, including the first year of the program. We believe that a loan rate set in this manner will signal to our international competition that we will not provide them with long-term price protection. Instead of inflexible loan rates which have allowed foreign governments to expand production based on support levels that reduce their risk in the market, we will signal to the world that we will compete with them in a wider range of prices. This then will make their domestic programs more costly and reduce their incentive to continue heavily subsidized programs.

However, recognizing the need for a transitional program, the Farm Bureau will continue to support continued use of deficiency payments of income supplement to producers of the crop that currently have deficiency payments in their programs, with a $50,000 limit on the deficiency payments, however. We recommend freezing target prices for 1986 at the 1985 levels. In 1987 and thereafter, target prices would be set at 110 percent of the 5-year average used to determine the loan rate. Adjustments to target price levels, however, would be limited to 5 percent in any year.

Because feed grain producers have been caught in a rapid deflation of their assets, the high real interest rates, and an overvalued dollar abroad, this target price system will allow producers time to adjust to a more market responsive farm program while maintaining income levels for program participants. Necessary adjustments could occur gradually while attempts to expand imports and address the issues of international market access and subsidy practices can be confronted.

Dealing with export market expansion, we believe that the area in which substantial improvement can be realized in agricultural profitability still lies in the area of exports. We therefore have placed great emphasis on the need for a strong trade title in the 1985 farm bill.

Two traditional ways of enhancing exports have been through the judicious use of Commodity Credit Corporation export credits and the Public Law 480 or Food for Peace Program. These programs should be continued and improved. In view of the need for food, which has been made worse by the African famine situation, and the potential for economic development followed by better cash market opportunities, I believe that a much stronger Public Law 480 program is currently justified.

Regarding Commodity Credit Corporation export credits, it is regrettable that the CCC Credit Revolving Fund, which was part of the 1981 farm bill, was never funded and activated. There are still valid reasons for incorporating the revolving fund in the 1985 farm bill with funding made available to make it an effective export tool.

An intermediate Commodity Credit Corporation Export Credit Program is needed to take care of export credit needs for terms of 3 to 7 years as provided for in the Agricultural Trade Act of 1978. This legislation should be more fully utilized.

The Blended Credit Program, which unfortunately has been saddled with the requirements of the cargo preference law, needs to be made a part of new farm legislation with an exemption from cargo preference. As a matter of fact, all agricultural exports should be exempted from cargo preference requirements, whether commercial or Government assisted. There are other ways of financing a strong merchant marine without harming agricultural exports. We should not harm farm exports in our efforts to have a stronger American flag fleet. Farm Bureau will strongly support legislation to exempt agricultural commodities and products from the cargo preference law.

Regarding trade negotiations, we must give our trade negotiators the tools they need and our strong support to gain better market access and to resolve outstanding unfair trade practices such as export subsidies, which have eroded U.S. overseas markets. In this respect, we would support what might be called a bonus export program.

Under such a program, bonus tonnage of farm commodities and products would be made available from CCC owned commodities to lower U.S. export prices to offset the advantage of competing countries which subsidize their exports. The baker's dozen concept perhaps.

ACREAGE REDUCTION PROGRAMS

We support acreage reduction programs that are triggered when carryover supplies exceed workable levels. For wheat and feed grains, we recommend that the Secretary be required to call for an acreage reduction program when carryover is projected to exceed 4 percent of annual world utilization. The ARP programs should be large enough to assure a reduction in carryover supplies. We expect that through increased efforts to expand foreign markets under the trade title of our proposal and great competitiveness in world markets through flexible price and income support programs, that acreage reduction programs will be used only to correct temporary imbalances; not as an annual program.

With reference to the farmer-held grain reserve, we favor elimination of the farmer-held grain reserve. Grain farmers have learned that they cannot store their way to prosperity, and the reserve has exerted detrimental influence on livestock markets. The reserve has been used as a tool to temporarily prop up market prices in an attempt to reduce Federal expenditures for deficiency payments. The buildup of supplies in the reserve has long-term negative consequences for both the grain and livestock industries. Without the reserve, we would never have accumulated the excessive stocks that gave need for a PIK Program.

In reference to conservation, we are concerned that farm programs have provided incentives to plow up fragile lands. Our policy states, "We oppose economic incentives to artificially stimulate producers to bring fragile lands under cultivation. Any producer that brings such land under cultivation should be ineligible for any Federal incentive payments for any crop in his entire farming operation."

We also support implementation of a conservation reserve program which offers producers contracts of 7 to 15 years under which erosion-prone cropland would be converted to less intensive uses such as pasture, permanent grass, legumes, or noncrop bearing trees.

The policy that could best offer prosperity to U.S. agriculture would be a commitment to fiscal responsibility and reducing overall Federal spending in order to get interest rates down, exchange rates in line, and exports back into the world market. We therefore continue to support a freeze on Government spending at 1985 levels.

We believe that our proposal will benefit the feed grain industry as it provides the opportunity for profit to all of agriculture. The features outlined above allow us to move toward market orientation, provide continued assistance in the form of target prices, and expand export markets. Only in this way can we return agriculture to a healthy and balanced condition.

Farm Bureau will work closely with the Senate Agriculture Committee in developing a sound and fiscally responsible farm bill. I would be happy to respond to any questions you might have.

Thank you, Mr. Chairman.

Senator Cochran. Thank you very much, Mr. White.

The other day when the Secretary of Agriculture was testifying before the Senate Appropriations Committee, I asked him what the cost to the Government would be if we enacted legislation this year that would freeze the target prices and loan rates for program commodities at 1985 levels. He and his advisers testified at that time that the cost would be about $15 billion.

If that is true, if that is the cost, would that, in your judgment, be an unnecessarily large amount of Federal assets to allocate to agriculture next year, or would that be consistent with our effort to reduce the deficit?

Mr. White. Well, we have looked at projecting the cost of our program more in terms of the life of the farm bill, the 4-year program. We are estimating those costs are in the magnitude of $27 billion to cover the 4 years. So something less than what USDA is estimating in terms of their projections for this next year.

Senator Cochran. Their estimate would be about $15 billion each year according to their testimony. So you are apart now almost $30 billion.

Mr. White. I guess that is right.

Senator Dixon. It would be more than 50 percent lower, would it not, Mr. Chairman?

Senator Cochran. His cost is 29——

Senator Dixon. 27.

Senator Cochran. 27.

Senator Dixon. And the other is 60, I think.

Senator Cochran. Sixty—$33 billion difference over a 4-year period—that is what I said.

Mr. White. Yes.

Senator Cochran. How much would you suggest that we put into the bill as far as payment limitation is concerned? Should there be any payment limit on deficiency payments?

Mr. White. Yes. We are suggesting a $50,000 limit on deficiency payments; no limit in terms of the loan or whatever that—any other benefit requirements that might involve. Our feeling being that $50,000 limitation would avoid some of the pitfalls that we have seen in some of the other legislation in terms of what might be described by some as a windfall in some sectors of agriculture and, at the same time, those types of programs have a free benefit to some that might really be in need.

Senator Cochran. Which kind of acreage reduction program would you advocate that we authorize the Secretary to implement?

Mr. White. We would leave it in the hands of the Secretary entirely, again based on need. I think there might be a throttling effect there too in terms of what the exposure to the budget would be. In times of overproduction or excessive overproduction, the Secretary obviously could ask then for more reduction, acreage reduction in the next crop year to sort of bring down the production if he felt that would be the basis.

However, I think that you have to ask yourself the question of what enticement would there be there to get the participation? Would he have to go so far as payments for acreage reduction or could he just do it by just a deficiency route? In other words, kind of a reverse situation. If the decision becomes that you want a lot of participation, he could ask for just a small reduction in acreage, if you will, percentage, and we would get more farmers to participate. On the other hand, if his concern was about budgeting closure, he could ask for a large acreage reduction, and there would be very little participation. Kind of a reverse concept and might be debatable in essence of where the outcome would be in terms of a lot of participation, less production, or much participation.

Senator COCHRAN. There was an article in the New York Times this morning. I guess we ought to quote the Times since Senator Pressler quoted the Post a lot.

Mr. WHITE. In view of all the quoting——

Senator COCHRAN. It shows everyone got up early and read the paper. That is a good sign.

The article I read that I am referring to now, though, was about one of our grain traders, grain dealers, who was advocating that we consider subsidizing our exports inasmuch as our competitors around the world are subsidizing their exports and they are beating us at this game. They are really getting a bigger share of the international market than we are, and not all of that is due to just the overvaluation of the dollar in its relation to the foreign currencies, according to this fellow's attitude.

What is your reaction to that? Should we just go on and say, all right, let us quit pretending. These fellows are getting the best of us so we can play that game too; let's subsidize our exports directly.

Mr. WHITE. Well, I think that is why we put the emphasis that we have on our bonus provisions in our suggestions here, that baker's dozen concept, if you will. Let the foreign buyer buy 12 and get 13.3, or whatever the unit might be, whether it be a hundredweight of rice, or a bale of cotton, or bushels of grain, in whatever those ratios might be. If they order six, they pay for six and get seven, you know, whatever.

But I think though we have to send the message that we are serious about maintaining ourselves in the export market and continue to fight for that market. We have seen certainly what some other sectors of the world have done in terms of buying that market, if you will. I question the advisability of how deep the pocket should be. I do not want to get into the pay for it, like that. But it seems that we have to be serious about this business of big bucks, and it certainly has raised havoc with us here in American agriculture in terms of losing a large share of that market, largely as a result of some of the policies that we have displayed in recent years.

Senator COCHRAN. Senator Dixon.

Senator DIXON. John, your organization has been very supportive, in the last couple of sessions of the Senate, of my amendment to prevent the President, and any President in the future, from declaring an embargo without a majority vote of both Houses.

As you know, in the last session of the Senate, I think we put that amendment on the Export Administration Act by a big majority, more than 2 to 1. But unfortunately each time the bill died in conference committee.

I have suggested, questioning Jack Block a couple of weeks ago when he was before our committee, that we incorporate in the 1985 farm bill that kind of provision.

Would the Farm Bureau favor incorporating in the 1985 farm bill a provision that would prevent Presidents, in the future, from declaring an embargo without a majority of both Houses?

Mr. White. Yes. Our policy is very clear on that respect, Senator.

We have said for a long time, you know, that these types of activities by any administration are very detrimental to our industry, that it ought to take more than just the whim of a President to put forth this type of embargo or this type of language.

Too often, the farm has been asked to carry foreign policy on his back in terms of this type of activity, and we certainly think the Congress ought to be more involved in those types of actions and prevent that from happening in the first place.

But, you know, we have heard a lot about what the cost of the embargoes have been to American agriculture, but the thing we have not heard, I feel, is what did this cost us in terms of lost opportunity. There are many now that are even shunning the expression when we come to embargoes. It simply has been overtalked or too much has been said about it. But I continue to say that the real loss to American agriculture has been the opportunities that we lost as a result of those embargoes in terms of other countries around the world coming into the foreign market, into the production activities that they have. I do not know how you would put a value on that. But I very, very feel that a lot of our problems today center around those embargoes that we have experienced in the past.

Senator Dixon. Well, I certainly agree with that.

Along those lines, I trust that your organization still enthusiastically supports the concept of contract sanctity.

We have proposed that we would also offer such an amendment to the 1985 farm bill guaranteeing contract sanctity. I presume your organization still supports that concept?

Mr. White. Yes, very much.

Senator Dixon. I thank you for your mention in your remarks of what we commonly allude to here as the sodbuster legislation. I see that you have taken a stronger position: That a farmer who converts fragile or highly erodible land into producing land would not be eligible for any Federal incentive payments for any crop in his entire family operation, is that correct?

Mr. White. That is correct.

Senator Dixon. It would not be limited to the profit question?

Mr. White. That is correct.

Senator Dixon. Well, that is good.

Then I suppose you would support that kind of amendment to the farm bill this year as well?

Mr. White. Yes.

Senator Dixon. So there are three things we are discussing here that are altogether apart from the question of price support and things of that kind: The question of embargo, the question of contract sanctity, and sodbuster legislation, all of which I think are very material gains for the American farmer if we can incorporate them into this bill.

Mr. White. In the bonus trade concept, the terms of it would be very competitive.

Senator Dixon. I thank the Chair.

Senator COCHRAN. Thank you, Senator.

Senator Heflin.

Senator HEFLIN. You mention this bonus. I was trying to read your statement. I did not have it in advance.

Where in your written statement is the concept of the baker's dozen or the loan—I mean the bonus thing. I would like to see exactly how it is done.

Mr. WHITE. It starts at the top of page 4 and the bottom of page 3.

Essentially what we are saying is that with the stocks that the Commodity Credit Corporation holds from time to time, we would like to see some of those be moved out of there in terms of a foreign buyer coming into the marketplace and, say, buying a unit of six or something, and we would give them the seventh one free. That would help us to compete against the overvalue of the dollar abroad and entice that foreign buyer into our marketplace rather than the way he presently is trying to function.

Senator HEFLIN. Would this concept be tied, into what I believe this committee asked at one time, to restrictions based upon surpluses and some type of required reserve that might necessary? Is that the concept that you would use?

Mr. WHITE. Well, perhaps in the long run. But I think in the short run, our thrust would be more along the lines of trying to get back into the competition in terms of the overvalued dollar, to beat that competition, with the 30- to 40-percent disadvantage that we presently have in the foreign marketplace, to offset some of that, if you will, by this type of an arrangement bonus. But it flows very closely to what you——

Senator HEFLIN. Well, if you added some type of export PIK where the CCC surpluses might be used as that type of a bonus which would not reflect itself in this year's budget.

Mr. WHITE. Very true. But again I want to emphasize though that in looking at the other provisions of our farm bill where we are eliminating the farmer-held reserve and the adjusting of loan factors and so forth, it would be unlikely that we would be building CCC stocks into the future, so long term you might not have that stock there to use as you might suggest in terms of an ongoing or long-term PIK type of bonus program.

Senator HEFLIN. Well, should there be some type of limitation, or would it depend on the country? Most of the people you are dealing with in a foreign export market are some type of Government purchasing agency or board.

Do you think there ought to be any limits as to countries? Should it be allocated in regards to population of countries, or should it be based on increases in previous sales? What sort of a mechanism should be used as an incentive for the export purchases, to give it as an incentive to get them to buy additional farm commodities?

Mr. WHITE. Well, I think all of those would come into play. I emphasize the part that certainly the customers that we have, the good customers that we have had, ought to be recognized and given some benefit too in the effort to span to thank them, if you will, for their past business in terms of allowing them to participate in this type of a bonus program. But all those that you mentioned certainly could be involved in it.

Senator **Heflin**. Do you have any idea of what type of cost it would be on that basis?

Mr. **White**. No. We have not put any dollars to it. But I do not think it would be near as much as we might think it would be simply because you immediately start subtracting storage payments and interest on storage payments and that sort of thing in the Commodity Credit Corporation program.

Senator **Heflin**. Corn is somewhat related in the sweetner business to sugar.

Have you all taken a position relative to the sugar program?

Mr. **White**. I do not have that before me today, but, yes, our position is simply to continue the sugar program as it presently is.

Senator **Heflin**. I believe that is all.

Senator **Cochran**. Thank you, Senator.

Thank you very much, Mr. White, for being here this morning and helping our committee in the way you have.

Mr. **White**. Thank you very much.

Senator **Cochran**. Our next agenda item is a panel including Varel Bailey, president, National Corn Growers Association, from Anita, IA. He is accompanied by Jerry Franz, vice president, legislative affairs. He is from Poynette, WI. Michael Hall, who is executive vice president of the Corn Growers here in Washington, is also here today.

We welcome you to the committee. Senator Grassley has already told us what a fine fellow you are, Mr. Bailey. We are glad to have had that presentation from him. He is a fine Senator.

You may proceed, Mr. Bailey.

STATEMENT OF VAREL BAILEY, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, ANITA, IA, ACCOMPANIED BY JERRY FRANZ, VICE PRESIDENT, LEGISLATIVE AFFAIRS COMMITTEE, POYNETTE, WI

Mr. **Bailey**. Thank you, Senator Cochran, Senator Heflin, and others of the committee. We really appreciate the chance to testify before this panel. I want to thank Senator Grassley for his kind introduction.

Corn Growers, as you know, represents 16 affiliated States, and have members in all 48 States, and even a member or two in Hawaii and Alaska.

Our organization has long supported the concept that profitability for corn production must come from the marketplace and not Government programs. We continue to support market oriented programs. I hope that my prepared testimony will be entered into the record, and I might just hit the high points.[1]

First of all, our present farm legislation has evolved over the last 50 years simply and basically to provide stable and plentiful supply of food and fiber. So many times, it says that farm programs have failed. But if you consider farm programs in that context, we have done better than anyone ever dreamed. We provide a lower cost of food than anywhere else in the world and, to a large degree, farm programs have had a part in that.

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[1] See p. 507 for the prepared statement of Mr. Bailey.

I think, based on that, let me go into a kind of synopsis of what the Corn Growers think is important.

First of all, on target price. We feel that we need a freeze at $3.18 per bushel basically where the 1981 legislation was, and after that, after those 3 years of a freeze, we adjust to no more than one-half of the loan rate adjustment.

The loan rate would be frozen at $2.55 for 3 years, and after 3 years, we would go to 100 percent of the past 5-year average, deleting high and low, with no more than a 5 percent adjustment per year. The loan rate would be changed immediately to a market oriented loan with the payback based on 5-month State average farm-gate price, or the maximum of the loan, and not subject to the payment limitation.

If you examine that concept, even though it might be legislated as a nonrecourse loan, there would be very little benefit to every corporate drain to the Government. So, in effect, with the market oriented concept, it would behave like a recourse loan.

We feel that with that concept though, that we would have years of excess supply that we may want to have extensions of the loan, storage payments on those extensions if needed.

PAYMENT LIMITATIONS

We oppose any payment limitation on payments, on deficiency payments. But in the event there is, we maintain that the 50,000 limitation applies only to the deficiency payments, that between loan and target, and that only.

On conservation acreage reserve, we recommend a long term, 5 to 10 years, to be set by a formula based on excessive production capacity, and the participation be on a bid basis and targeted toward fragile lands.

I might just say that we do not have all the mechanisms put in here, but we feel that about two-thirds of the excess production capacity should be taken out by the long-term reserve, one-third left for the annual set-aside.

On the reserve, grain reserve, we feel we need a phaseout to a minimum level of about 500 million bushels of corn, and the maturing farmer-owned reserve inventory be phased into the Public Law 480 program, and the CCC owned stock be phased into an export for PIK or equalizer to the value of the dollar going in an export trade.

EXPORT EXPANSION

We feel that we need some increase in funding on FAS, and appropriations for the Export Revolving Fund that has been touched on early this morning, and Public Law 480 programming. We think that there is potential here to double the Public Law 480 targeting strictly toward title II and title III of that program. We think there may be some chance for increased appropriations for both direct and guaranteed export credit programs. There is a preference in here, on cargo preference in the back, that really to maintain the U.S. maritime, the defense issue, and has little to do with agriculture.

Let me give some points to give you some idea of why we recommend these things.

First of all, the target program in the past has basically been called an income transfer program. But when you examine what has happened on target price, target prices have provided agriculture really with a safeguard against short-term capital fluctuations. Agriculture is really a long-term capital industry. When you look at it in that way, the resources devoted to food production are a direct function of the marginal expectation of profit. In other words, when all the signals in the world during the seventies were to expand agricultural production, it was the target price that gave us the stability and the financial markets to draw in the capital to create that production basis.

It is true that target price and deficiency payments translate directly into land and asset values, but that is what provides the capital that agriculture needs to produce and to respond.

For this reason, we say that the return of freeze of the 1981 legislation is what is needed to stabilize the financial condition out in the countryside.

Now, let us take a look at loans. First of all, you have to, I think, recognize that elasticity for demand of food and fiber is pretty inelastic. So that any small amount of excess or shortage, you see wide swings in the price. Any time you see wide swings in the price, that increases the risk of production. Increased risk means higher priced foods. So when you approach the loan rate in this manner, then you come to the conclusion that the cost of the commodity loan really does loan the price of food to the consumer because it lowers the risk to the producer, and also lowers the risk to all the processors as well.

Based on this, again, when we referred to the financial crisis that agriculture is in, a freeze of those loan prices for 3 years, I think, is really justified when we consider the world economic condition.

Now, there are three problems though. With the commodity loan mechanism as it was threatened almost 50 years ago. No. 1 has been the opening of international trade. No. 2 has been the floating of the world currency. No. 3 is sharp rise in international trade protectionism. These are not in the normal framework of agriculture policy, but they are very important when it comes to agriculture out in the countryside.

Take a look at international trade, it has been actually explosive in 1955 when we went to $26.8 billion. To $251 billion in 1980. We decided that if we compete in that marketplace, we are all going to be better off and have a high standard of living. The problem is that this mechanism internationalizing trade has allowed other areas in the world to develop excess capacity based on our fixed commodity loan rates. We really offer them an umbrella.

Turning to the internationalization of the U.S. dollar, it really has made the ability to flow money and pursuit of capital and assets around the world very liquid, but this really has caused distortion in international commercial trade. I might note—I think it is pretty well documented—that only 4 percent of the international money flow is to service international trade and the other 96 percent is to service pursuit of assets and speculation. So the old concept that if you had a strong economy, the currencies would level out based upon relative economy strength does not work any more because of this international financial flow.

The problem really comes down that we are right now in agriculture liquidating our capital because of not signals from true agriculture demand, but from a false signal of relative currency values.

Concerning protectionism, we have already touched this morning earlier, other people, about embargoes and trying to negotiate out of protectionism. I think it is pretty well coming down in our mind anyway that it is going to take cost of treasury between nations before we are really going to solve the protectionism problem.

Now, considering the point I just made, the market oriented loan mechanism is the best alternative; that loan mechanism allows U.S. farmers to be knowledgeable of the loan value in advance for the most deficient production management; the payback provision is based on the marketplace; any price lower than initial loan rate is a measure of the accumulated effects of price exchange rates, protectionism is practiced by our competitors around the world.

In the testimony, there are 11 items that comment as advantages to the market oriented loan. First of all, there is elimination of CCC stocks. We end up with better grain quality. We become a preferred supplier. We do not provide an umbrella with the fixed loan rate. We stop foreign expansion. We raise the cost for protectionism to other countries. There is no need to be worried about cargo preference because we are meeting them at the marketplace. It fits within the regulation in the GATT, General Agreement on Tariff and Trade, and basically allows us to compete with our foreign customers and competitors on the same price load.

We do not have all of the figures worked out. We are analyzing the cost of these programs, and over the next several weeks when these numbers become available, we will surely share them with the panel if they desire. I might say though that we do have some preliminary sheets that we are working on, and I would like to present them at this time, if I might.

Senator COCHRAN. We appreciate having this. We will make this a part of the record as an exhibit to your testimony.

Mr. BAILEY. I might, just a quick explanation. The first one is an analysis of USDA's presentation on March 7 to this panel, and the important line, I think, is the bottom row which is the shortfall of aggregate gross income from 1984. I point out that working through the numbers that they presented, we show an aggregate gross income shortfall of almost $12 billion just on these five commodities.

The second page is the farm debt institution, and a mechanism there confused what debts are unserviceable.

The third sheet is the breakout, assuming various rates of return, correlating that to the price of corn as a representative commodity, and showing down at the bottom then the projected debts unserviceable based on those prices to the farmer.

At this time, we would be happy to respond to any questions you might have.

Senator COCHRAN. I think your organization keeps up with how we are doing in terms of trade in corn, feed grains around the world.

What are our prospects for increasing market share overseas? Do you have a brief overview of what the future looks like for us in that area?

Mr. **Bailey**. Well, for the last couple of years, the feed grain market has been trending down. I think the fact that the current situation in the last 90 days is, I think, termed nothing short of terrible, probably not fully known in policymakers' language.

Senator **Cochran**. What has our trade during the last year been with China, for example? Do you have any figures on that—how that compares with previous years?

Mr. **Bailey**. Off the top of my head I cannot quote you the figures. I know though that they are actually exporting grain, and before their corn. And they were actually importing corn before. The figures we are looking at is that they could effectively lay corn our west coast docks cheaper than we can provide it out in the West.

Senator **Cochran**. I asked that because, in your testimony, you suggested some additional appropriations for the Foreign Agriculture Service.

I think 3 years ago I took a delegation to China to talk about increasing agriculture trade. We were spending some money through the FAS to promote the sale of corn and for feed grain, thinking that China offered us some very real growth possibilities in trade, not only feed grains but wheat as well.

I was just wondering how we were doing, whether there has been any progress made and if not we were maybe spending this money unwisely if we are trying to promote trade with them and they are turning around and exporting to us.

Mr. **Bailey**. This may be hard to understand but, basically, we are on schedule as far as market development goes with China.

If you examine the track record of most countries where we have got a market development at work, the first response is to move in and to work with their production of agriculture to modify that, because that is where the real change takes place.

The first response out of a country where you do market development work is normally to increase the capacity of cereal grains production. In a lot of cases to the point that it is excess of what they can demand would consume domestically in a short term.

The problem with China is that we do not have the feed mills built. We do not have the hogs and the cattle and the poultry facilities to go. We do not have the fructose plants and the alcohol plants built. So right now it is true, they can produce more corn than they can consume and at the point, I think we must remember, that a market development project is a 5- to 7-year turnaround. The first dollar put in until you can really document greater than a dollar response is 5 to 7 years out. It is tough to say, guys, we need to continue those moneys when it appears that the money we spent 2 years ago has been a negative impact.

I do not think over the long term that that will be the case and we just have to evaluate our programs and make them better.

Senator **Cochran**. Where else in the world do you foresee growth possibilities for U.S.-produced corn and grain?

Mr. **Bailey**. Well, I think the Pacific rim is one that has to be evaluated very carefully; possibly, North Africa. Another one that is maybe subject to discussion, but all of the controlled economies in Asia and Eastern Europe, I think, have to be reevaluated.

There are some real substantive changes taking place in the way that those economies in Eastern Europe are responding to the world situation. So, I would think that some select technical assistance of the type that FAS and the cooperative program provide would be a good investment in those areas, also.

Senator COCHRAN. There was one proposal made to the committee in its initial hearing on the 1985 farm bill that was described as a marketing loan approach. Rather than having the Commodity Credit Corporation actually receiving commodity when loans were forfeited, provided nonrecourse loan provisions, you could pay it back at either the loan rate or the world price, whichever is lower.

This would mean that the Commodity Credit Corporation would not end up with the commodity. It would be marketed. It would force the marketing of that commodity for whatever the market could bring.

Have you all had an opportunity to look at that proposal, and if you have, do you have any reaction to it at this time?

Mr. BAILEY. That is the basic framework of the market-oriented loan concept that is in this testimony, and the true cost of that program is being studied right now. One of the things that we are attempting to do is to charge the cost of that program against any of the alternatives.

The alternatives that may be considered would be possibly the administration's program or the one on the other extreme, I think, is some mandatory production quota program, and try to select out the best total program.

Part of this total program has to be addressing the financial crisis in agriculture as well. It really does not do us a lot of good, for example, to go to the free market if we are going to end up spending billions and billions of dollars in some type of a loan subsidy or a gigantic FmHA, for example, to pick up the pieces out in rural America.

We would be much better off to devise a program that works in the world marketplace and is lowest cost in that framework rather than an alternative that is purely, in an agricultural sense or USDA sense, cheaper, but in total very expensive.

Senator COCHRAN. Well, I am frank to say that I am impressed with your testimony. I think that your suggestion is certainly one that ought to be carefully considered by the committee.

We may very well end up somewhere consistent with what you suggest. There is no way to know what this committee is going to do. They are a bunch of individuals on the committee. I do not know whether a consensus is going to be shaped very easily or if it may be difficult.

Senator Heflin.

Senator HEFLIN. You mention China and the other countries which now are exporting. I am happy to see you are optimistic that they are not going to be necessarily long-term rivals. There are some people that feel China's exports will grow and continue to be substantial competitors in the future.

Some developing countries that we have given assistance to are also now competitors for export markets in corn. Zimbabwe, as I understand it, is now one. On these developing countries and other things, is there any significance that should be given as to their future growth? What is your feeling about some of these other problems.

Mr. BAILEY. I think you make a very valid point. The fact is that the foreign policy of the United States as it goes out around the world is in a lot of cases not very coordinated. We very likely may have AID doing one program and FAS doing another.

Again, I am here as a farmer looking at the world landscape as it appears to me. It appears that we very much need to take a hard look at the long-term potential of these countries and see really what they need and what is to our benefit as we give aid or assistance or technology transfer.

So, I guess, I cannot comment on any specific countries at this time, but your point is very valid. That evaluation needs to be made before we start committing money and manpower for assistance in these countries.

Senator HEFLIN. I have invited other organizations, and I would invite you to, in writing, give us your views on proposed tax simplification programs as to how they would affect corn farmers.

There are those that consider it in different lights and different ways, and it may well be that it could be harmful or it may be helpful. It has a lot of attractive features. At the same time, there are some matters pertaining to this that might have disastrous effects upon certain segments of the economy and certain industries within the farming community. I think we ought to view those.

I think there is a growing support for some form of a tax simplification bill, and I think as we look at farm legislation it could well be that tax treatment will enter into some type of decisions that are made relative to farm legislation.

I would invite you to submit such a statement to this committee. I would like to see somebody on your staff study it and see how the corn grower—and he may differ as to size, geographical location, and otherwise would be affected.

Do you have any comments on that you would like to make orally at this time?

Mr. BAILEY. Well, yes, thank you. We appreciate the opportunity to participate. I would just mention that I do not just produce corn; I have a cattle operation, so I have been aware of the debate in the cattle industry between outside investor capital, and so forth, in that industry for a long time.

We point out that only now the grain industry is, I think, becoming increasingly aware of the ramifications of tax legislation in their industry. It is commonly known to rural appraisers that the value of farmland for agricultural purposes is kind of cash flow, plus 25 percent, and that 25 percent is the expectation of capital gains and other types of things.

Now, in the grain industry, that 25 percent is evaporating, and more than that in some cases. So we, too, have an appreciation of what tax legislation can do to the base capitalization of an industry.

Senator HEFLIN. One other question. Since sugar and corn are somewhat related as sweeteners, what is the position of your organization relative to the sugar program?

Mr. **Bailey**. Well, you are right. The corn industry is involved in sugar. We have come from a laboratory concept about 7 years ago to now providing 55 percent of all the domestically used sweetener in this country.

Our position really is based on the protectionist and trade policy of foreign countries, and predominately the east coast. We feel that the U.S. sweetener industry, specifically the corn part of that, in a level playing field would be the lowest cost producer in the world.

To basically do away with the quota system and the support system that is in place today would literally be throwing the best industry in the world today away, stepping aside for some other nation's policy to step in and dump their excess stocks on the world marketplace. We think that maintenance of the current program is essential.

Senator **Heflin**. That is all.

Senator **Cochran**. Senator Melcher.

Senator **Melcher**. Thank you, Mr. Chairman.

The proposal that you are making, Mr. Bailey, is that there be a status quo, a freeze, for 2 years for loan rates and target prices, is that correct?

Mr. **Bailey**. As per the 1981 legislation. We would suggest that the corn target price really needs to be the $3.18 that was in the legislation, and if you followthrough the——

Senator **Melcher**. Is that where the target price is now?

Mr. **Bailey**. It is $3.03 right now, based on the 1983-84 adjustment.

Senator **Melcher**. And what is loan?

Mr. **Bailey**. $2.55.

Senator **Melcher**. You are suggesting that Treasury exposure be increased 15 cents per bushel?

Mr. **Bailey**. In this case, yes. On corn, specifically.

Senator **Melcher**. This is unanimous?

Mr. **Bailey**. Well, as you followthrough the logic of the presentation, to a large extent I think that we can say that the plunge in land prices out in the Corn Belt really got rolling when we told everyone that we no longer were going to stay on the 1981 legislation track.

We were going to freeze the target price, and so everyone immediately was looking at land prices and recomputed, and the plunge in land prices, and thus the real credit problems in the Corn Belt, got started.

Mr. **Franz**. I might add that we took that freeze with the expectation of expanded exports and they have not materialized, so that has contributed to that.

Mr. **Bailey**. The target price freeze at $3.03 was predicated on roughly $4.5 to $5 billion of export credits and a real commitment of the U.S. Government to move into the world marketplace and move the product, and that has not happened.

Senator **Melcher**. Do you object to the administration's farm bill?

Mr. **Bailey**. Yes.

Senator **Melcher**. But not after 3 years?

Mr. **Bailey**. After 3 years, we offer a mechanism that is somewhat different than the administration's. We recognize, and I think everyone recognizes that political laws cannot hold back economic laws forever. It is a matter of adjusting and whether the Government is going to resist change or facilitate change.

Senator **Melcher**. It would change the loan rate after 3 years to no more than 5 percent decline. Who knows what is going to happen in the next 3 years?

Mr. **Bailey**. Yes.

Senator **Melcher**. But it would provide for no more than a 2.5-percent decline in the target price?

Mr. **Bailey**. Yes.

Senator **Melcher**. So there would be greater exposure each year if there were a declining market.

Mr. **Bailey**. Yes, and on a rising market, less. That mechanism, I think, basically gives the right incentive to Government that as the prices plunge, the Government needs to be more active in the export side in the involvement, and as prices rise, their exposure is lowered and they need relatively less emphasis.

Senator **Melcher**. I agree that the Government needs incentive. We hear so much around here from the Government that you need incentive. It is refreshing to have it reversed. Government needs a little incentive for exports.

You mentioned Public Law 480; you want to see it doubled. Are you aware of section 416?

Mr. **Bailey**. Not specifically.

Senator **Melcher**. It is another of the possibilities for donation, but it carries with it the opportunity for barter, trade, concessionary sales, everything that Public Law 480 has, plus more. Corn, unfortunately, is not a commodity available for section 416; only dairy products and wheat are.

Mr. **Bailey**. I might make a comment. In part of the policy framework that we would approach in the evaluation would some effect have to do with how does it fit with the general agreements on tariff and trade; how does it fit with precipitation of increased skirmishes and trade wars, and what is the best option for the corn industry in changing and influencing trade policy with other countries.

Senator **Melcher**. We have talked about that long enough. I am just ready to start doing it and I hope you are.

Thank you, Mr. Chairman.

Mr. **Franz**. Could I add a couple of comments?

Senator **Melcher**. Mr. Franz.

Mr. **Franz**. No. 1, under our proposal we would have the opportunity to really try a world market price, and that price of corn would be then available also to our domestic livestock producers rather than the loan price.

We did take USDA's projected prices and plug that into Iowa State's formula on ability to service the farm debt. These are preliminary. Using 11 percent interest rates, we can project servicing 75 percent of the farm debt in 1985, 40 percent in 1986, and 16 percent in 1987, and then it goes back up out to 1990.

That would be with a constant farm debt. And, of course, with this decline in ability to service, that debt would change and, of course, so would interest rates to agriculture. Certainly, by 1986 or 1987, the Farm Credit System would be insolvent, and certainly many more rural banks, and that is why we need this target price freeze to stop the decline of farm asset values, or we will have a real debacle in rural America.

Senator **Melcher**. People use this term "freeze" with different meanings. When you go from $3.03 to $3.18, I hardly would call that a freeze.

Mr. **Franz**. Well, no.

Senator **Melcher**. I do not think an increase is in the cards. A 15-cent increase for corn is $1 billion per year, or very close to it. I do not believe that is possible.

In light of what we are faced with, I would suggest that we will do well to hold the target price to $3.03 where it is now.

I agree that without some protection of income where it is now, we are taking a terrible chance on a continuation of this deterioration in asset-to-equity ratio that is occurring in Iowa and the Midwest and starting to occur in Montana.

Montana land values are declining, too, and we are not making any profits. Our producers are not making any profits, and have not for some years. I understand all that. I do think, however, that we have to be a little bit realistic in view of the fact that we are going to have to deal with the budget whatever we do.

I think it would be wrong to mislead you to think that your testimony will have much sway in Congress on increasing deficiency payments. There is one thing I would like to point out.

We are very likely to write a 4-year bill. You have the deficiency payment staying stable—increasing and then staying stable for 3 years. This would not give us much time to see whether what you project on market orientation after that time is beneficial to yourself, to the present institutions and to the livestock feeders.

I do not quarrel with your projection. I just do not know what is going to happen after a couple of years. I think our answer, though, is increased exports and it is going to have come through Public Law 480, and section 416. If we are very positive on that will have something that is truly beneficial.

Mr. **Bailey**. The only possibility we see is, after we get our analysis complete, we think we may very well show that we need no export credits and the $1 billion might be available for that reason by going to the world market price.

Senator **Melcher**. Developing trade is a very long-term process. I would not try to project figures on what would happen after 2 or 3 years on trade, but I know if we go after it, we are going to get more. I do not know how much more.

The main thing is to stop talking and go after it. We have had enough talk. We have had 10 to 15 years of talk about expanding trade. We just do not do enough to make it come about.

I do not think it is political. I think it is just a question that we have got to have the gumption to do it.

Mr. **Bailey**. Back to the point of the 15-cent rise, I think what is important here is that the corn growers want to go on record that we made a deal to take a 15-cent cut into this year for export credits and the commitment to move out into that marketplace, and that money was allocated but not used.

Basically, we are saying right now that we are not going to make any of those deals if it does not result in positive response.

Senator **Melcher**. Good for you. [Laughter.]

You did not say much last fall, I noticed, so I am glad to hear you saying more this spring. [Laughter.]

Mr. **Bailey**. Thank you for the opportunity.

Senator **Cochran**. Thank you for being here, Mr. Bailey.

Senator **Heflin**. Let me ask you one other thing.

Senator **Cochran**. Senator Heflin.

Senator **Heflin**. Do you have any suggestions as to additional tools to acquire more export markets? I do not think we are using the tools that we have as effectively as we could. But, necessarily, if we are going to increase our markets—and testimony has come from many sources that it has to come from export markets, and I just wondered if you would give us some suggestions of any tools that you might suggest in addition to what we already have.

Mr. **Bailey**. Well, I think that as per the testimony, the market-oriented loan is one that we need to take a real hard look at, with all the advantages that it has. There is another concept, and it is in the policy process of the National Corn Growers right now, so I cannot say that it has got the stamp of approval, but that is that agriculture in the United States may need to look very closely at the creation of some entity that resembles an agricultural trading company that actually goes out and merchandises agricultural products the same way that Japanese industries go out and do the evaluation, the merchandising, and everything all around the world.

Basically, U.S. agricultural commodities are offered in the world marketplace and they are not sold or merchandised. I think there are a lot of things we can do within that framework to gain a lot of economic activity here in the United States with some type of a trading company entity.

Mr. **Franz**. I would say there is one other opportunity of markets domestically, and that is with phase-out of lead. There is a potential of using grain alcohol to replace lead as an octane enhancer and develop substantially larger domestic markets for grain from that possibility.

Senator **Heflin**. You mean as a gasoline——

Mr. **Franz**. Yes, as a gasoline additive to bump octane up instead of lead, and that is about the only domestic opportunity for a substantial increase in our market for corn.

Senator **Cochran**. Thank you very much for being here.

Mr. **Bailey**. Thank you.

Senator **Cochran**. We are advised now that our earlier witness who was scheduled to testify, James Provan, who is a member of the European Parliament from Perth, Scotland, is here.

We invite you, Mr. Provan, to come to the witness table. We are happy to have you here. For the information of the committee, Mr. Provan is a member of the Agriculture and Fisheries Committee of the European Parliament.

He is a farmer. He has land devoted to wheat and seed barley, among other crops. He also has 1,000 head of sheep, and has timber in eastern Scotland.

We are very honored to have you here this morning. We welcome you and invite you to proceed.

STATEMENT OF JAMES PROVAN, MEMBER, EUROPEAN PARLIAMENT, PERTH, SCOTLAND, ACCOMPANIED BY DERWENT RENSHAW

Mr. PROVAN. Well, thank you, Mr. Chairman, for that introduction. My name is James Provan. As you say, I am a member of the European Parliament, representing northeast Scotland, and a member of the European Democratic Group—that is, a party, as you would call it over here—which is an umbrella party which includes the British conservatives. I am a member of the British conservative party.

I am also chairman of my political group's agriculture committee and a member of the European Parliament's Agriculture Committee, as you have said. I very much welcome the opportunity of being here to spend some time with you this morning and address your very influential committee, especially at this time.

It is also with a great deal of pride that my institution, the European Parliament, and with respect to your own Senate and your own country here—I note that President Reagan will address the European Parliament in Strasburg on the 8th of May.

I very much look forward to that, and I believe it can be a very historic occasion and a common focal point for all to beam in on in the development of the European Community.

I am grateful for the privilege that you have extended to me to address this committee this morning, particularly when there is so much change in farm policy on both sides of the Atlantic. I think that is important.

Today, I would like to focus more narrowly on some of the common problems that face the United States and European agriculture. The problems that we face are not necessarily those of policy. The problems that we have got, I believe, have arisen because of new management techniques and by the development of new technology, allowing farmers to produce more and more—more than we can readily consume at home or sell at a reasonable price on the world markets.

There are problems of consumers changing their eating habits and spending less of their family budget on food; the problem of an increasing public spending on agriculture. These are all problems that I believe we share whether we are in Europe or the United States.

We in the European Parliament, by way of background, the only directly elected international parliament in the world, have just been considering the European Commission's recent 1985-86 farm price proposals, which represent a further step in reforming agricultural policy.

We in Europe share your administration's desire to see farm spending taking up a smaller part of budgetary expenditure. Those of us who represent farming areas realize that savings in farm spending will be meaningless if they merely lead to increased expenditures on unemployment and greater overall support of the rural areas.

I think it is important for people on this side of the Atlantic to realize that the common agricultural policy, while it is an agricultural policy, also has a very large social aspect to it.

When we look at the world market situation, we see that pursuing policies which, in the end, will only benefit the Soviet Union can help none of us in the Western World. We therefore must try and work together and understand each other's problems.

Americans have sometimes been critical of the apparently slow rate of reform in Europe. Fine words often appear to have little result and limited action. My purpose this morning is to show that Europe has already begun to take real action, and I mean real action, to reduce its farm spending and to bring supply and demand into better balance.

I think it is also important to realize that we have 10 individual member states that make up the European Community, and in those circumstances when ministers of agriculture meet together, they have always got to go back and try and inform their own farmers in their own countries that they are achieving something as individual ministers for their own farmers. To get agreement, therefore, among 10 member states is very difficult.

I am sure, for instance, Mr. Chairman, if you were to ask 10 people in this room what color we should paint the walls, we would probably get 10 different answers. That is the sort of problem we face in Europe when we are trying to decide agricultural policy.

All OECD member states support their agriculture. In continental Europe, this support goes back to the 19th century. Under the common agricultural policy, or CAP, as it is colloquially known, a Europe which was short of food after the Second World War has been able to become largely self-sufficient, while at the same time allowing a net 12 million people to gradually leave the land and provide the manpower necessary to develop other industries.

I think it is also important to realize that at this time we have 13 million people unemployed in Europe, and that figure is still rising. That is compared to eight million who are employed in agriculture.

I realize that here in America, of course, the number of farmers that you have, I think, is somewhere in the region of 2.5 or 3 million, and so the comparison is quite dramatic, I think, when you realize the problems we have with the number of people employed in agriculture.

We have a high-input and high-output small farming system which characterizes the farming of the original six member states of the Community. The most straightforward and transparent aids were used. Those aids are basically guaranteed prices and export refunds.

We have not been able to stop the CAP in its tracks in the eye-catching way which you propose in this country in your new farm bill, nor do we believe that such precipitive action would necessarily be appropriate for us in Europe.

We have, however, begun to alter the course of the CAP. We are no longer in an area of open-ended guarantees. We now have a system where budgetary availability of funds determines the level of guaranteed prices.

We have probably got the strictest cash limits that it is possible to impose, and that policy will not really be inflicting itself on the agricultural sector until 1986, but it is now in train, and that is important.

Last year, we also introduced a milk quota system, which still leaves us producing more than we consume, but we have cut back production some 7 or 8 million tons from the level it would otherwise have reached.

In fact, over the first 9 months following implementation, milk production was down 4 percent, butter production 12 percent, and milk powder down 20 percent from the previous year.

Of course, this has led to an increase in cattle slaughtering and entire cattle exports, but this has come at the top end of the production cycle and production in the longer term can be expected to fall.

Through a reduction in cereal support prices, the lengthening of intervention payment times, strict quality standards, and the holding back on exports, cereal market prices have been brought down by 10 percent in European monetary terms, or 25 percent in U.S. dollar terms.

There will be a further decrease in both support and market prices together with measures to limit output, and the price proposals from the Commission this year ask for a reduction of 3.6 percent in cereal prices.

Our sugar production quota system, which limits output of both sugar and high-fructose corn syrup and ensures a high level of utilization of sugar in the European Community—we will at the same time honor our commitment to the developing countries linked to the Community under the Lome Convention by providing them with a guaranteed outlet for their market in sugar. We, in fact, take 1.3 million tons of sugar from these Lome Convention countries, and I think that that is a very great necessity as far as the Community is concerned.

More recently, the Community has also taken firm action to limit the production of wine. While the Community has been successful in making itself self-sufficient in a number of products and has embarked upon a program of reducing price support, we continue to honor our commitments under GATT.

Although Community agricultural exports to the United States have grown in recent years, helped by a strong dollar, statistics for 1983 show that in the agricultural sphere we continue to import twice as much as we export.

In 1983, 17.4 percent of U.S. agricultural imports came from the EEC. This amounted to $4,010 million. In the same year, we imported agricultural goods worth $7,755 million, or some 20.3 percent of your world agricultural exports. In other words, we are your best customer.

When we look back on the introduction of milk quotas in Europe and other changes which have been brought about, we are conscious that not just for political reasons, but the sake of agriculture, there is a limit at the speed at which we can move forward and change agriculture.

We are concerned, too, that where we have a general problem of overcapacity and poor markets, a battle for export markets would harm us all.

We welcome the aim stated at page 2 of the trade negotiation section of the administration's bill to negotiate the reduction of import barriers by 1990, but wonder if the administration is referring merely to quantitative barriers or if they would include such things as health standards as well.

We note with some concern other proposals regarding trade, some of which are contained in the other versions of the bill. We will watch with considerable interest to see which version finally emerges from Congress.

I think it is important to realize that in Europe we have the same problems as you face in the United States. We have those, in political terms, who want to maintain some form of protectionism, and we have those, like myself and British conservatives, who want to see greater free trade.

I believe you have these problems, too, Mr. Chairman, on this side of the Atlantic. While the steps we have already taken in Europe, and which I must stress are only a start, may not be as spectacular as the administration's farm bill proposal, we are moving firmly forward in the right direction and within a framework of strict budgetary discipline.

The days of unlimited guarantees are over. We are seeking better balance in the marketplace, better and closer relations with the United States, and let me tell you we are putting our own house in order.

I hope, Mr. Chairman, that my visit here today may be the first of a dialog that might be a continuing dialog between the United States and Europe. I hope that any of the members of your committee or any Members of the Senate who come to Europe will make the European Parliament part of their schedule when they are in Europe.

Thank you very much.

Senator COCHRAN. Thank you very much, Mr. Provan. We appreciate your being here, and we also compliment you on the statement you have made to the committee. It will be very helpful to us in understanding the important relationship that we have with the European Community and the member states of the European Parliament.

Personally, I am glad to be able to say that the Cochrans claim they came from Scotland. [Laughter.]

Mr. PROVAN. Absolutely.

Senator COCHRAN. That may make us kinsmen of some kind or another.

Mr. PROVAN. I have relations, Mr. Chairman, who are Cochrans.

Senator COCHRAN. Well, in politics, of course, we try to claim kin with as many people as we can. [Laughter.]

We find that is helpful in Mississippi, and maybe it is internationally as well. Thank you for being here.

Senator Heflin.

Senator HEFLIN. Well, I am delighted to hear your testimony. I notice that you indicate that there are differences in the viewpoints of various Europeans. Protectionism exists with some and you have got problems, I reckon, with diversity of opinion just like we have here.

In America, we have quite a diversity of opinion. But, speaking overall, you think that there is more of a movement toward open market rather than it is toward Government.

Mr. PROVAN. Yes.

Senator HEFLIN. Is that true in regard to promoting export sales?

Mr. PROVAN. I think what I have to say is our main objective at the present time is to get a better balance in the market between production and consumption. We have to face the fact that at the current moment we have got fairly high stocks of certain commodities like wheat, like cereals, like milk products, and that it is necessary for budgetary reasons that we find export markets just the same as it is necessary for you to find export markets.

It is somewhere that that difficulty has got to be gotten over between our two sides of the Atlantic because if we do not do something about it and we cannot organize ourselves better in the international trade market, as I said in my testimony, I am afraid that it will just be the Soviet Union who is the ultimate beneficiary, and that would perhaps cause us tremendous trouble.

Senator HEFLIN. Well, countries differ as to what they are doing. France seems to have embarked on a much more vigorous export trade built around some type of subsidy to increase its export trade in some of the other countries.

I do not know whether your testimony is on balance or not, but we have seen a good deal of activity relative to trying to increase export sales through the use of bonuses or subsidies that are paid by export sales.

Is this common in Europe or is it isolated to more individual countries, or what overall would be the viewpoint of the use of Government subsidies to increase export sales?

Mr. PROVAN. Well, I think from the tenor of the remarks that I have already made, we are interested in getting a greater balance in the market, but we have got a specific physical problem of stocks at the present time.

We have got high grain stocks now because we have been holding back off of the international market and we have not been so aggressive, maybe, as one could have been because of our regard for international agreements.

You rightly point, I think, to some export sales from France, and a number of us, if I might say so, Mr. Chairman, respected the shot across the bows which the U.S. administration perhaps gave when you did an equivalent type of deal with the Egyptians on the wheat flour deal.

It is also important, I think, to point out that France currently is in favor of a 3.6 percent reduction in the cereal price. So the French are aware that there is a problem within the Community and that there is an international problem as well.

But please remember that export subsidies are allowed under the GATT rules, and it is the equitable share of the market that we are really talking about. I believe that we as a Community have respected that equitable share of the market.

Senator HEFLIN. Thank you.

Senator COCHRAN. Senator Zorinsky.

Senator ZORINSKY. Thank you, Mr. Chairman.

I wish to welcome you, sir, and thank you for being here. We need more of this type of dialog with our friends in the European Economic Community. I certainly support your basic philosophy of reducing agriculture's dependence on Government.

What percentage of disposable income do the people in Europe pay for their food?

Mr. **Provan**. It is dropping. I cannot give you the exact figure off the top of my head. If I were to go through some of my papers, I dare say I would find it. It has been somewhere in the region of 22 percent. I believe that overall now it is down to somewhere in the region of 17 percent in the European Community, as against about 15 percent in the United States.

Senator **Zorinsky**. How do you propose we compete in the world marketplace? Of course, you indicate you have seen the market-oriented proposal from the administration. How do we compete with a European Economic Community with whom we cannot even agree as to the definition of the word subsidy let alone the elimination of subsidies?

Uniquely enough, the Canadian Government has nationalized transportation and equalized shipment costs for farmers in Canada, regardless of where the farm is.

We have to be able to compete with them. for instance, they have a wheat board, which is a market-clearing organization. Similar mechanisms exist in many areas in Europe.

I received a call from an egg producer in my State that just lost all his market in Saudi Arabia because the West Germans are now paying a dollar-per-case in subsidy for every case of eggs that is exported out of Germany. But, they say that is not a subsidy. Obviously, it is one of those areas where we cannot agree on the definition of subsidy.

How do you propose we compete, unless we do go into the marketplace and do those things that other countries are doing?

Mr. **Provan**. Well, that is a very interesting question, Senator, if I might say so, and I think it is one that I will not necessarily try and duck. I will try and give you my views on it, but there is no doubt that we must realize that the Committee on Trade on Agriculture in GATT is actually looking at the subject of what is a subsidy at the moment.

I think, you know, while these discussions are taking place, it is not necessarily for us to go too deeply into it today because that is going to be done in another place. But let me try and give you my view as to how I see it and the background of the problem as we see it as Europeans.

The definition of a subsidy is a difficult one because we, I believe, quite clearly and openly allow people to see what we do. We call it an export refund or an export subsidy to bring our product price down to the world price so we can sell it on the international market.

We believe that your agriculture in the United States has subsidy as well, but they are subsidies at the input level of agriculture rather than at the output onto the international market level.

Therefore, you know, we can say to you that there are subsidies just as much as you can say to us that there are subsidies. We see our output subsidies onto the world market—I do not like the word "subsidy." I would rather call it a refund or restitution or something like that, but I think it is the word that is recognized here, so let us use it.

We see these subsidies as being necessary to compensate for the social aspects of the agricultural policy which we have in the European Community. Our housewives are paying more for food in the European Community to fund part of the social aspects of the rural areas and the agricultural policy.

Therefore, it is necessary to refund that social cost to our exporters on the international markets. I have seen figures relatively recently which show that while we have a high input, high output system in the European Community, our price per ton can actually be relatively competitive; not all the time.

We must realize that we have seen a high dollar recently and that type of thing, but for a period of last year, September-October, there was a 3-week period when there were no export refunds available to exporters from the European Community and we did see some cereals exported from the Community on competitive terms into the world market with no subsidy whatsoever.

Now, things have changed slightly since then and one has to admit that there is an export refund being paid at the present time. But we are getting more competitive and the structural changes that are taking place at the present time in the European Community, with strict cash limits and thresholds so that if there is a record harvest, we see a reduction in price the next year and make the farmers realize that we are in a difficult balance situation between supply and demand, I believe will have a long-term effect which will achieve the objectives.

Let us face it, the objectives of the common agricultural policy when it was established in 1963 were quite clear. They were to make Europe more self-sufficient in food supply.

The difficulty recently has been that the Council of Ministers—that is, the 10 ministers of agriculture when they come together—have not had the guts, for use of a better word, to be able to go back home and tell their farmers any sooner that they had to start limiting production.

That day has now arrived and we will see some better control in the European Community. But I believe that we are both moving in the same direction. You are wanting to cut your budgetary deficit. You are therefore wanting to cut your support for agriculture, and we are doing exactly the same in the European Community, trying to get government expenditure and government involvement in agriculture down.

Senator ZORINSKY. Thank you for being here.

Mr. Chairman, I ask unanimous consent that my statement be placed in the record.[1]

Senator COCHRAN. Without objection, it is so ordered. It will be included in the record.

Thank you again, Mr. Provan, for being here. We appreciate your presence.

Mr. PROVAN. Thank you very much, Mr. Chairman.

Senator COCHRAN. Our next witness on our agenda is Jack Gray, who is a dairyman and farmer from Ralston, OK.

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[1] See p. 506 for the prepared statement of Senator Zorinsky.

Mr. Gray, we welcome you to the committee. We also convey greetings to you from your Senator, David Boren, who is a member of this committee. He asked that we express to you his apologies for not being here. He is on his way back to Washington from Oklahoma and is not able to be here at the committee meeting to personally present you to the committee and welcome you.

We hope you will be able to summarize your written statement; we see you have quite a lengthy one. We have two other witnesses to hear from this morning before we are adjourned, so we encourage you to limit your presentation so that we will have an opportunity to have a question-and-answer dialogue with you.

You may proceed.

STATEMENT OF JACK GRAY, DAIRYMAN AND FARMER, RALSTON, OK

Mr. **Gray**. My name is Jack Gray and I live in Ralston, OK. Our dairy farm is what we call a family farm operation. I have three children, all grown, and they work for me and my wife. The two boys are 32 and 27 years of age, and I have a daughter 37.

Our farming operation is composed of 1,300 acres in crops, 2,000 of grass, and a herd of dairy cattle. We milk over 150 head. Since 1979, we have not been able to show a profit, with the exception of 1980. Low grain prices have been the downfall. Also, we have had some drought years, like 1984.

In 1983, something hit our wheat and our test was not any good. In 1984, we had a gross income of over $400,000, but after taking our expenses from it, my wife and I had a little over $2,000 left for our work for the year, with no depreciation taken. How do we get food stamps?

After getting this income tax from our accountant, I went to see our FmHA supervisor, Jimmie Stormont, on February 19, 1985. He wrote me this letter:

> After careful consideration, we were unable to take favorable action on your request for special debt set-aside for Farmers Home Administration Services.
>
> The specific reason for our decision is in working your annual and/or typical plan, the cash flow projection indicates that you cannot achieve a positive cash flow during the next 5 years, and no portion of the debt will be eligible for set-aside.

Then I talked with my bankers about getting a Government-guaranteed loan. Both told me that they had not received anything from the Government on these loans. One complained that it took from 4 to 6 months to get anything done. So that is that.

Now, to get to the business at hand. This is an article that was written:

> It should be clear enough by this time to all who have studied the present plight of the farm industry that one of four things must soon happen: The price of farm products must be increased arbitrarily; the dollar must be deflated, causing a rise in all commodities, including farm products; farm debts must be written down to the ability of the farmer to pay; or the holders of farm mortgages must take the farms given as security for those mortgages.
>
> With farm prices what they are now and have been for the last year, the farm industry cannot pay taxes, interest or indebtedness, upkeep of equipment, maintenance of improvements, and make necessary replacements. Ninety percent of our farm problems is bound up in two words: low prices.

It sounds like today, does it not? This was written by Mr. Clarence Roberts in December 1932.

Today, for the American farmer, it is one word—profit. In this testimony that I give today, the underlying theme is: How does the farmer realize a profit. We must have a profit to survive. Where do we get this profit?

It has to come from the people that we call consumers. It must come from them in one of two ways, either through taxation or from their billfold. It is that simple. There is no other solution. That is this committee's problem. Now, do you have the guts to do it?

The committee should be able to walk through these doors, put all their petty differences aside, and come up with an answer. This farm bill, believe it or not, is one of the most important issues to come before this Congress, more important than the budget or deficit spending.

Let me stress just one more time that this farm crisis will be the most important issue that will come before this Congress. Farming is the basic industry of the United States, of Oklahoma, and the world. The choice is clear. We must support our farmers and help our farmers or we stop eating.

Sixty years ago, jobs were plentiful, movies were silent, flappers were noisy, business boomed, the stock market went crazy, and U.S. farmers went broke. Now, there are lots of jobs, movies are talking, flappers are still noisy, the plastic card business is booming, and the U.S. farmers are still going broke, plus the domino theory is setting in.

Enough of this rattling; let us get down to testifying because I just have 5 minutes to testify. Boy, I sure hope you listen. Most of my testimony will be on the need for a high loan program to stabilize American agriculture.

American farmers cannot do it; they cannot buy inputs on a fixed or steadily rising market and sell their crops on a continually fluctuating and totally undependable world market. We need wait no longer; the handwriting is on the wall.

No problem worthy of the name has an obvious and easy solution. If American agriculture is to survive it must face up to some hard facts and completely abandon some highly cherished and long-held beliefs: That a free agricultural market works better than a controlled one, false. That we must get the Government out of agriculture, false. That market-oriented philosophies must be pushed and that they will make things better for the farmers and for all that depend on their success for their own, that is false.

We are feeding a hungry world, that is false. The vast overwhelming proportion of what we sell overseas is not going to the hungry; it is going to Japan, China, Russia, the Common Market nations and others with the money to pay, not the starving millions in the barrios outside of Mexico City and Caracas and Africa and Southeast Asia. If our Nation wants to feed the hungry world, or help on the balance of payments or if it wants to punish Russia, let the Nation as a whole as represented by the Federal Government, share the cost equally.

Why should 800,000 farmers here produce 98 percent of America's crops bear the burden alone and go broke in the process, dragging at least 35 million other people and probably a whole nation behind them?

The foregoing are just a few of the currently held ideas that must be abandoned. These ideas are not just held by Congress or by the present administration or by the previous administration. My friends, they are held by many, many of you. They are held by the large majority of our farm organizations. They are held by our thinkers and by our economists. Please read the following sentence carefully:

Nothing is going to get better for the American farmer, on a permanent or dependable basis, until he abandons the free market concept and goes back to a sufficiently high Federal Government support program that will make it possible for him to be assured of a profit if he makes a good crop.

This probably will mean control of the major crops and it will mean a greatly reduced emphasis on the export market. Who cares about exports, if the individual farmer cannot make a profit on them? I will tell you who cares, that tiny minority of people who have already gotten rich beyond their wildest dreams buying commodities from American farmers and selling them overseas at a profit. It is not a high priority to these middlemen that the American farmer makes a profit. It is of top priority that they make a profit, naturally.

Labor unions have considerable control over what they receive from the fruits of their work through the power of collective bargaining. Industry has considerable control over what is received for the fruits of its labor, from behind the scenes price fixing agreements, the ability to shut down its factories, and the ability thereby to tremendously reduce its cost of production.

Only farmers, we repeat, only farmers has no choice and no control.

He must continue to produce, and he must pay the price demanded for his inputs and he then must sell for what the free and constantly fluctuating market will let him have. That we should have to learn this lesson all over again, after having learned it in the hardest possible way in the Great Depression is mind boggling. We had nothing else but a free market until legislation was passed in 1933 to bring stability and prosperity back to the American farmers. It had not worked, the free market. We had a constant boom and bust farm economy, beginning in 1921, a serious farm depression that contributed heavily to dragging an entire nation into the most serious depression in history in 1929.

For 40 years we repeat, it is of enormous importance, we had 40 years of high and strong Federal Government farm support programs since 1933 to 1973. And in 1973 we made a serious wrong turn. We passed a new farm law that forced the farmer to depend primarily upon the free market for his profits.

It was the assumption that the export market would provide us with some sort of OPEC cartel. OPEC cartel, that is when farm prices skyrocketed, and diesel prices went from 25 cents to over a dollar a gallon, farm implements went four times higher and repairs three to four times higher, and the commodities prices fell, on food that would allow us to dictate prices for our farm produce, solve what few problems were inherent in farming under a Government program, and allow us to grow fence row to fence row on all crops as we saw fit.

In 1974 and 1975, our long-time buddies, friends and buddies, the Russians bought every bushel of grain that we had. Our cotton crops were disasters and farm prices shot up. It works, it works, the millennium is here. For 2 years on sheer coincidence. And since then, it has been steadily going downhill. Oh, sure, some people have made money some years. All you have to do is to make a good crop during a year when everybody else makes a bad one. All our farmers know, if you are smart, you know how to do that.

But leaving the sarcasm of the last two sentences behind, it has now been 11 years and we have repassed essentially the same farm law twice more since 1973, and 1977 and lately in 1981. Eleven years of a disasterous test has surely proven to the majority of U.S. farmers that the free market concept simply does not work.

Senator COCHRAN. In order for us to have some opportunity for questions, we are going to have your written statement appear in the record as if you stated it and read it verbally.

Can we ask some questions about what you specifically recommend?

Mr. GRAY. Yes, sir.

Senator COCHRAN. I am interested in knowing what level of Government support you would recommend for feed grains.

Mr. GRAY. Well, wheat, cattle and diary and so forth.

What we propose on the high loan or parity is 90 percent of parity. The loan cannot be made except for 9 months and if not sold, the Government takes possession. They then in turn, can take it and dump it in some foreign country, give it to welfare, schools or dump it in the ocean, while keeping enough in reserve for a crop failure. But this is mandatory acreage control or bushel control.

It will be a referendum vote 3 months before actual planting date and a simple majority will be enough. No deficiency payments. No payment of any kind, unless the States are declared a disaster area. It will do completely away with the grain reserve and its cloud over the farm market, that holds prices down. No double cropping. Hay could be grown on set-aside acres. We need to utilize all farmland.

Now, I have got three little light pages here that have got very short ones on each one.

Second, we would recommend a wheat board be enacted for the wheat program with a vote of the producers. If the producers so ratify the wheat board, it should be composed of 15 members; 7 of them from the consumer side and 8 from the farmers. Each of them from different areas of the United States, and this wheat board shall regulate the production of wheat, the pricing of wheat and other regulations that are deemed necessary for the production of this commodity.

The administration farm bill is an absolute blueprint for disaster; both for farmers and consumers. We farmers do not particularly want Federal money. We want a long term policy that would provide stability and one that will allow us to make a profit. Our present farm prices stir predepression parallels. Some experts see strong parallels between the farm prices in the 1920's, which is often ranked as the single most important cause of the Depression. If I were to pick a date, I would say maybe we were about like we were in 1928.

If the administration's plan prevails, there will be a new 15-year farm law that phases down some favored price support mechanisms its first 5 years. We farmers have not made it in the last 4 of the administration, how can we make it in the next 15?

Agriculture and the Defense Department. This is a good—let us take and do away with that Agriculture Department completely and put us under the Defense Department. As they say that the Army travels on its stomach and we farmers produce food for the stomach and the Defense Department we could then contract with the Defense Department to produce this commodity for cost plus 10 percent with a little overrun and then all farmers could be tremendously happy. We could all get rich.

We would not have to worry about David Stockman, and no worries would mean that we would be in heaven.

If we cannot come up with a farm deal and you all cannot get your minds together, or if you have not got your guts together to get your mind together, let us do it this way.

Let us forget about making a farm bill and let us fall back on the 1949 law, at least we will be making more than what we are now. We will be controlling the production and so forth and so on.

And now, I have got one other thing that does not pertain to you all at all and that is the dairy farm bill.

I am a dairyman and I have been in the business for 35 years. My wife and I start up at 3:35 in the morning and we go to bed at 8 p.m.

The only dairy farm bill that I could recommend would be a dairy board bill and this board would be invested with the powers to control production, advertising and any and all things that would pertain to dairy or milk products. Bases would be set for each and every dairyman and production would be set by the amount of usage of the milk.

Any excess production would be bought for the use of welfare and school children.

We would hope that the excess amount would not run over a $1 billion at the most. It can be controlled. We had it 10 years ago in bases and it worked and we controlled our production. It can be made to work and it has been tried.

Now, farmers are really not worried about interest, their worries are about making a profit. If interest is high and they can still make a profit, so be it.

Exports, in 1972 and 1973, we exported approximately $7 billion. In 1982 we exported $40 billion. Where did the money go? The farmers did not get it. We cannot depend on exports, here today and gone tomorrow.

Trade with foreign countries, very simple. There is a very simple solution to this. I want everybody to hear it. We import what you import. It is very simple, no protectionism, no nothing. We import what you import.

If they throw something against us, they can send so much over here, but they have got to buy it back from something.

Bangs Program which will be where you spend some money. You do not have to spend it. It can be solved by mandatory calfhood vaccination and these few words, that no female animal shall cross State lines unless officially vaccinated. This would save many millions of dollars, many millions of dollars and it has been proven that the Bangs vaccination will work.

I thank you.

Senator COCHRAN. We will put your statement in the record and thanks very much, Mr. Gray, for being here and taking the time to prepare your statement.

When you mentioned disaster payments, did I understand correctly that you feel these should be farmer's only support from the Government, and that they should depend directly upon the market otherwise?

Mr. GRAY. Disaster payments are all that I recommend, for a disaster payment would keep them solvent for the next year.

Senator COCHRAN. Senator Zorinski.

Senator ZORINSKY. Thank you, Mr. Chairman.

Jack, you talk just like many farmers in Nebraska. I think a lot of people concur with some of the things that you have said.

I am preparing a farm bill that includes a referendum, a vote mandating a farm bill.

Mr. GRAY. If, if—I am thinking ahead of you, if they turn it down, they have no supports, it is just an open market.

Senator ZORINSKY. What would your feelings be if it were a mandatory program, triggered by a specific surplus level?

Mr. GRAY. We do not care. These little farmers are the easiest people in the world to get along with, as long as they are making a profit.

That is what we are interested in. We do not give a damn what you do.

Senator ZORINSKY. Well, I agree with you. Profitability is the key.

Mr. GRAY. Let me tell you something about Oklahoma that happened last week; 79 banks are on the critical list. We had a member of your Department of Agriculture there, at OSU Tuesday and he made this statement. He said that the Department of Agriculture has got to get rid of some of its resources. Do you know what he meant? That the Department of Agriculture has got to get rid of the farmers.

Senator ZORINSKY. We think that we have resources and expertise, but many people feel that what we have done thus far now has not worked.

Mr. GRAY. You know what we have done in this sentence here that I have not read; we have made the grain cartels bigger and they do not give a damn about us. When our prices get too high, they will go overseas and get it. It has been proven. We cannot look after them. We have got to look after the farmer, and that is f-a-r-m-e-r.

Now, may I ask you a question? What is the most free and important resource in the United States?

Senator ZORINSKY. I imagine our people?

Mr. GRAY. No, resources, natural resource.

Senator ZORINSKY. Water?

Mr. GRAY. One.

Senator ZORINSKY. Land?

Mr. GRAY. Another one.

Senator ZORINSKY. Air?

Mr. **Gray**. Air, you see——

Senator **Zorinsky**. We do agree.

Mr. **Gray**. Good, good, most people get land and that is it.

But you see, that is what makes us live. All the rest of them we can do without. But you have got to have something to eat and it all comes from the land, and the water and really the air.

Senator **Zorinsky**. Well, I hope that more people understand the philosophy that you are telling us about.

I hope we can come up with something that makes sense.

Mr. **Gray**. I hope that you do. See, I am 65 years old and I do not have very much longer to farm, but I have got to farm. You know what my social security is? Three hundred and ten dollars, and I am going broke.

Senator **Zorinsky**. I understand the situation and hope we can do something about it.

One thing that I can assure you though, we will keep sending those football teams down there to play.

Mr. **Gray**. We might beat you.

Senator **Cochran**. Thank you.

Mr. **Gray**. Thank you.

Senator **Cochran**. Our next witness is Janice Garrett, National Feed Grains Commodity chairwoman, Women Involved in Farm Economics, Minden, NE.

Ms. Garrett, welcome.

STATEMENT OF JANICE GARRETT, NATIONAL FEED GRAINS COMMODITY CHAIRWOMAN, WOMEN INVOLVED IN FARM ECONOMICS, MINDEN, NE

Ms. **Garrett**. Thank you.

Mr. Chairman, and members of the committee, I wish to submit my testimony on the farm economy which I believe is on the verge of collapse.[1]

It is a deteriorating situation which I feel desperately demands your immediate attention. I can sympathize with the man who spoke just previous to my testimony, because I personally have felt the problems with the economic crunch that we have in rural America.

My husband and I, with no outside labor, are farmers in the south central part of Nebraska. We are the third and fourth generations to care for this land, some of which has been in our family for 100 years. I am representing WIFE, Women Involved in Farm Economics. The members of our grassroots organization are determined to work closely with other organizations and with you people to find an answer to and a workable solution to the financial crisis confronting rural America.

I come before you today because of my great concern. As we face the reality of 250 farmers going out of business today and every day under present conditions, no one recognizes the need for the development of sound agricultural policy more than we, who are involved in agricultural production. WIFE recommends the following: The foremost issue is price. Policy must be made which will establish and protect the price for commodities in the marketplace, that allows a profit for the producer. All other recommendations for a 1985 farm bill are so closely tied to this most important point of a price for our products that allows us to realize a profit, that to cure our other problems and ignore it, will negate any and all time, effort, and money exhausted.

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[1] See p. 515 for the prepared statement of Ms. Garrett.

Our industry is different from all others in the fact that we do not have the opportunity to price our own products. Any other business is able to monitor its cost of production add a fair profit and set its own price. With agriculture, Government is involved in decisions, economic and otherwise and virtually every decision comes down on the side of plenty to assure a ready supply of cheap food for its people, the majority of which are not involved in producing that food.

If the farm producer is expected to subsidize the American consumer with cheap food at the grocery store, then we must be protected at the other end in order to insure that supply.

Supply management must provide along with a loan rate keeping pace with the cost of production, a well-defined mechanism for balancing production with domestic and export consumption levels and a reasonable carryover. We strongly recommend that such set-aside or supply management program be on a unit basis.

Closely tied to production controls should be a conservation program. To preserve our valuable land in its best condition for future generations requires that a long-term commitment be made by the American public. Farm credit must insure that our needs are adequately met at the lowest possible interest rates. Our myth of free enterprise system is slipping to close to a Government-owned agricultural system.

Of the $215 billion in farm debt, one study shows that Federal agencies hold at least 54 percent. I realize that the amount of the farm debt is equal to some of the debt that foreign countries in South America are experiencing.

This past month, I participated in a roundtable discussion with representatives of the eighth Farm Credit District Banks of Omaha, covering Iowa, Nebraska, South Dakota, and Wyoming. Their yearend statistics show a considerable deterioration in net worth and earnings from 1983. Without exception, there were increases in delinquencies and foreclosures—Nebraska is showing a 600-percent increase alone—loan chargeoffs and acquired properties.

I feel this is a representative condition. It is a fact that credit extended to farmers, without realizing a profit from our commodities only drives the farmer deeper in debt. We need a positive income.

The long-term program must be bipartisan, withstanding changes in the administration, with flexibility for adjusting to changes on domestic and world economies. If we are working within the framework of presently established USDA programs, we would like to recommend these policies be included:

Price protection in the form of loan rates, or target prices must be established at no less than the cost of production and should cover all agricultural commodities.

We stand on record as opposing the $10,000 cap recommended by the administration. We feel that this will only help the part-time farmer who has outside income.

Family farms are caught the tightest in the present financial squeeze. Of the total U.S. farms that produce 40 percent of our commodities, 33 percent are in economic stress with the debt/asset ratio of between 40 and 70 percent.

And many of them right now, that are wondering if they are going back to the fields, maybe have an even higher debt/asset ratio.

Because of this, realistic payment should show a preference to the family farm, and I am referring to the family farm in relationship to the small government acreages and the large corporate farms.

A commodity reserve program, farmer held, should be continued at a reasonable level and be implemented in a manner that will not create a depressed market. The ability of this country's farmers to produce more food than is needed, should be considered a national asset, with the entire Nation taking responsibility for its protection.

Long-term legislation should include a revolving loan fund in the CCC, to eliminate the need for annual budget outlays for our commodity programs. The fact that only a fraction of the total USDA budget actually reaches the producer is widely misunderstood by the public.

I would like to refer you to a study which the Food and Policy Research Institute did. It was a study which analyzed the consequences of different policy programs.

Their computerized findings addressed farm income specifically. I will not go through that because it is a long report and I am sure that you have it in your hands. It was a study that was done by Iowa State and the University of Missouri.

WIFE opposes a recourse loan policy that would only act as a cash-flow tool and would no longer be a price protection device.

We urge changes in the U.S. trade policy to develop and expand our export markets, for all agricultural products at or above the cost of production with the producers realizing at least a share of the benefits. Exports are essential to a healthy U.S. agriculture, however, we cannot expect them to save us.

WIFE asks that an export credit revolving fund be appropriated. We feel that the implementation of this fund is vitally needed.

We need strong embargo protection. We believe Government embargoes weaken the marketing credibility of our Nation and are directly responsible for losses of income to the American agricultural producer.

In such cases where agricultural products are used as weapons in setting foreign policy, compensation should be paid through the Defense Department budget to the producers.

Finally, WIFE calls for a renovation of the Federal Crop Insurance, with a direct relationship between coverage and premium.

Those of us in production agriculture have become victims of a point in time, when policies halt the normal transaction of a successful agricultural business and the transition of land from one generation to the next. Depression, not only of a financial nature, but depression of a mental nature is destroying the farmers' will to continue the fight for economic justice much longer. Until this nation's largest industry, largest consumer, and largest employer; agriculture is healthy and profitable, generating real income rather than debt, generating income and tax revenues with each dollar turnover and able to purchase those urban produced goods and services, we will not see a full economic recovery in the Nation.

I submit to you, that the U.S. constituency has a shared interest in what happens to agriculture. The impact that agriculture has on their lives, their financial well-being and their future, demands a profit for the agriculture producers of this country.

Senator **Cochran**. Thank you for your excellent statement.

You mention that target prices and loan rates ought to be tied to the cost of production. In this big country of ours, there are a lot of variables from one part to the other. One of these is the cost of production. This morning in one of the newspaper articles and I think Senator Pressler was referred to in it, there is a description of yields per acre on grain farms in California that are irrigated by Federal water projects. This water does not cost farmers anything really.

They measure yields in tons per acre. We measure them in bushels per acre and I think that you do it the same way in Nebraska. This illustrates the huge yields that are possible under certain special circumstances.

In Nebraska you have to pay for your own irrigation. The costs of production there associated with getting your wheat to market are much greater than they are in some of these other areas.

We are really faced with a big challenge in trying to determine whose cost of production to use as a measuring stick to set these targets and loan rates.

Dairy production in Mississippi is much more expensive than it is in Minnesota or Wisconsin or other areas. Those areas are close to the feed source, but we have to pay transportation costs to get the feed to our area. Then, we have extra costs associated with refrigeration, particularly in the summertime. The costs are just much greater in Mississippi.

Marketing order is one way to take care of this. There is a marketing order program which takes into account transportation costs. Senator Zorinsky mentioned a while ago that, in Canada, there is one transportation cost for all farmers to a certain port, and the Government subsidizes the rest.

The reason I point out those things is that they occurred to me when you mentioned the cost of production. This is one thing to one person in one State and in one commodity group or one kind of production agriculture. It can be completely different in another area. It is hard to write a national farm bill that sets a loan rate and a target price in a commodity area because the differences are so wide and varied depending on where you are.

Ms. **Garrett**. That is true.

I can show you back in my briefcase, I have a list of a study that was handed out recently at one of our farm meetings for the farmers to try to figure out their own cost of production—what if, what if, what if fertilizer costs you this much and what if seed costs you so much how many bushels per acre would you have to have to be able to make a profit?

I think probably it would have to be handled by the ASC committees, in individual areas. I do not think that there would be any way that you could possibly set a specific price nationally, because within our own county at home, we can have as much as a 50-percent variation in the cost of production of input. We have in our own area, dry land, we have pivot irrigation, we have subirrigation. We also personally irrigate out of a federally funded irrigation project which is a small project in south central Nebraska, tri-county.

The costs are increasing. So, federally funded projects are not necessarily free, I can tell you that.

Senator COCHRAN. Thank you, very much.

Senator Zorinsky.

Senator ZORINSKY. I appreciate your comments. Obviously, the differential between what a commodity sells for and the cost of production is either a profit or a loss and no one can stay in business with a loss. That is why we have to provide a reasonable price for the farmer.

I think that we all agree that the taxpayer should not have to subsidize agriculture and should not have to subsidize any industry in the marketplace. Reflecting that philosophy in legislation goes to the heart of my farm bill proposal.

Ms. GARRETT. I think that I have the figure with me that, if the entire budget of the USDA was added to the cost of food, it would only increase the cost of food in the United States 1 percent.

Senator ZORINSKY. I think that is the direction that we should be going in. When we spend 14 percent of our disposable income for food, compared to the 50 to 80 percent spent in other countries, a 1- or 2-percent increase would not have a disastrous effect on commodity prices.

I appreciate your taking the time to come here to testify for all of agriculture.

Senator COCHRAN. Thank you, Ms. Garrett.

Ms. GARRETT. Thank you.

Senator COCHRAN. Our final witness is David Johnson, of Hector, MN.

Mr. Johnson, welcome to the committee.

STATEMENT OF DAVID L. JOHNSON, ROVID FARMS, HECTOR, MN

Mr. JOHNSON. Thank you, Mr. Chairman and Senators.

Senator COCHRAN. We will make a part of the record, your entire speech.

And if you can make some summary comments from it.

Mr. JOHNSON. Yes, thank you.[1]

Mr. Chairman, I am a farmer—a Minnesota corn and soybean farmer—and I have been in the business for 30 years.

I served as a delegate to the Republican Convention in Dallas last summer and expressed some displeasure with the current ag policies at that time and this dialog is a continuation of the concerns that I had at that time.

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[1] See p. 518 for the prepared statement of Mr. Johnson.

The collapse of the farm economy is widely blamed on rigid, failed, current farm policy. This is only partially true. The major farm economy-busting factors are excessively high interest rates, the historically high dollar, and the radically changed world wheat and feed grain landscapes subsequent to the Carter embargo.

As we look backward at the last decade, we can see that a 50-percent increase occurred in world feed grain and wheat production from 1974 through 1984, and dramatically increased production from such countries as Thailand, Argentina, Brazil, Canada, and Australia. Incidentally, our country is right on a parallel in terms of the 50-percent increase.

These major macroeconomic factors coupled with a blatantly unfair competitor nation trade practices, are causing a depression on the farm. Farmers have absolutely no control over macrofactors and depend solely upon representational government and congressional ag committees for relief.

The farmer's only remedy is to produce greater quantities of grain which further compounds the problem of excessive surplus and grain inventories.

In terms of the macroeconomic problems, nothing can be done about the high interest rates that we must pay. We can do nothing about the impact of that Carter embargo. We can do nothing about the impact of a yet stronger dollar.

A major farm policy shift occurred in 1980 when Paul Volcker, with the concurrence of the Reagan administration decided to sweat the inflation out of agriculture. This policy was accomplished by increasing the spread between the average farm interest rate and the rate of inflation or simply stated, high interest rates compared with low inflation rates.

It is time to stop sweating out the farmer. The spread between inflation and farm interest rates in 1980 went from 2 points to 20 plus points in 1984. Thus, farm debt became very burdensome forcing farm land values downward sending the farm sector into deflation. It meant to this farmer a deflation rate of from 10 to 15 percent per year riding down one half or more of my assets during this period of time.

The underpinnings of agricultural debt are seriously threatened by the 50 percent or more deflation farms experienced since 1980.

To genuflect a bit, looking over 50 years of farm policy since 1934, when ASCS was enacted, the spread between inflation and the interest rate, was for the most part of that period, at 4 points. Farmers have gone from 1980 two points spread to 20 points plus in 1985. It is like smashing farmers on the windshield of a speeding car.

That has been the impact upon farm and rural people. In my area, many farmers are deeding back land and a lot of them are in foreclosure, and the banks are digging the trenches to see who will survive and how they will survive, and even the banks themselves, feel threatened because of deflation.

I heard a gentleman from NFO testify earlier in the week that total farm assets in 1980 were $1.2 trillion and today they are probably substantially less than half that amount.

So you can see with the ripping and the tearing of the equity base from beneath farm people, banks, communities, and businesses, the damage is awesome, just awesome! It is unbelievable!

I know an old timer who has a son who is farming at Hector. He told me that his son bought a farm a year ago. His son had farmed it for some time and wanted to buy it quite badly and paid $2,000 an acre cash for that farm with the concurrence of the Federal land bank. The Federal land bank encouraged him to buy it and they loaned him a substantial part of the money. The father reflected that today the farm would sell for $800 cash an acre. Observing not even in the depths of the Great Depression, did farm land come down that hard.

The effect of the loss of equity under this policy which cost Minnesota alone, $9 billion. The source of this information comes from Senator Durenberger's office, and in Renville County, over $500 million is devastating. Our county is pure agricultural, 500,000 tillable acres and land has gone down at least $1,000 an acre and probably close to $1,400 or $1,500 since we started to unravel in 1980.

The cumulative ag debt is now in excess of $218 billion. A consensus by any economic indicator is demonstrating massive dislocation and disarray of ag debt, interest and principal.

The result is severe economic and social misery among farm people. The Federal Government has a huge stake coupled with binding obligations in ag debt. As previously stated, much of this ag debt has and is collapsing and the question is, who will it fall upon?

Let me remind your committee that the U.S. Government has massive contingent liabilities to the Farm Credit System, the FHA and the FmHA loan and guaranteed farm loan system, the Federal Deposit Insurance Corporation cash reserves are threatened, repossessed grain CCC loan system and so forth, and other integrated responsibilities. That is the point that can clearly be made, a catch-22 exists for the administration.

The choices are clear: A, either pass farm legislation setting policy which allows the rural sector to pay its debts, or B, continued downward depression and the U.S. Government with the taxpayer paying for the massive contingent liabilities attendant to farm sector debt defaults.

The USDA published a book, Publication 1040, on the continued financial condition of farmers and farm lenders. On page 4, roman numeral IV it is demonstrated that $98.2 billion of the ag debt is presently precariously purchased or about to collapse.

So the problem is of a magnitude that is beyond my ability to express.

The misery index for farmers has been very harsh under this policy, especially the young in farming. Many ag banks, PCA's, FmHA's are now prohibiting a father from starting a son in farming because it dilutes his base so badly.

For 46 years under the safety net concept of the 1934 ASCS policy the spread between inflation and interest rates was less than 4 points, providing stability and prosperity.

I am convinced that our extreme credit liquidity crisis problems are not caused by the failure of long standing ag policy which has survived 10 Presidents and 25 congressional elections, a World War, inflation, and a number of other factors that have been previously discussed.

U.S. planners are faced with a huge $200 billion deficit limitation, a virtual glut of grain is currently headed for Government ownership under the CCC nonrecourse loans.

Nonetheless, agriculture must have the stablizing support of the internal safety net system to stabilize a severely wounded farm industry as we farm and rural people have known and experienced. And reflecting upon my 30 years of farming, a lot of people out in my area, are wondering if we are at the end of an era. Because of the policies that have been set upon us and because it has become so capital intensive, it has been extremely difficult to plan with Government policy that feels increasingly uncertain about the dollars that it contributes to the process through subsidies and so forth. Each farm generation peaks in their 50's and the farmer starts to reduce his size. Further, a lot of the moneys that he has earned are used to retire and the next generation starts up and they can only start up one way and that is with leverage, unless the father gives it to him on a platter.

And my daddy used to have a saying, that one generation gathers and the next one scatters. So usually they have to earn it, to make it stick.

America is now a part of a world grain economy that is only partially integrated into our external ag policy. The effects of Government farm policy since 1980 have lowered the wheat and feed grain support prices to discourage world grain expansion. The backlash and impact on farmers is devastating because the U.S. economy has inflated significantly since 1980 and in reality the lowering of grain support prices are in direct response to the ever stronger dollar. The American dollar is now approximately 200 percent of its 1980 value compared with some currencies. The stimulus provided to a competing country is, in effect, a doubling of our current grain prices and has little relationship to the safety net peg of grain prices. As an illustration, if we think of corn in this country having a current value of $2.50 or $3 a bushel and we look at a European country or Canada, or even the South American countries, because our currency doubled in value, it doubled the relative value of their corn crop. So that in effect, it is $5 a bushel. And on the subject of farm stimulus, if you told the American farmer that he would have $5 a bushel for his corn this year, I would estimate that you would get at least a 50-percent increase or 12 billion bushels and possibly double.

This is what has happened throughout the world and that is why so much new land was developed in Brazil, Argentina, Australia, and Canada, because it became very profitable, not because our peg support was too high. Largely because of the value doubling of U.S. currency the farmer has really been on the leading edge, the cutting edge of the policy to depress our peg prices further and further downward in an effort to discourage new land expansion. Farmers have suffered considerably because our returns are far below production costs. Minnesota Statistical Service, in January, estimated that it cost $3.40 a bushel to raise corn in Minnesota last year.

Currently many farmer's selling it for $2.50 per bushel and the effect is that he took $100 an acre out of his back pocket and sent it down the Mississippi and across the Atlantic.

This was the effect of questionable policy.

The U.S. price support peg system for feed grains and wheat has set the world grain price since its inception in 1934. If this system is abandoned by the Administrative Agricultural Adjustment Act of 1985, there is no other heir apparent to assume this role. In all probability, grain prices would plummet. Evidence the flat Board of Trade options and the effect of support levels upon current options. That is to say that if you look at the current wheat and corn options, they are flat. There is little or no carry in that market.

The Agricultural Adjustment Act of 1985 assumes that a free market system exists which would halt the free fall of grain prices, when it is enacted. Preliminary testimony before the Senate Ag Committee suggests that a free grain market simply does not exist. Further, American agriculture without exception, has made grain available to a willing buyer. I find it a bit humerous when we talk about a free grain trade when we have been traders of world dimensions for all of my life and long before that, and if somebody came here and wanted to buy a bushel of grain, he was sold that bushel of grain, if he had the cash to buy it. So free trade exists in that sense of the word.

I suspect that if we go to the free market concept and we withdraw the longstanding stability price support to the world, the world grain market will become nothing more than a world dumping ground.

A free market does not exist because all of our world competitors have internal and external ag policies that influence grain prices. Some countries, such as the ECC—we have heard from this gentleman from ECC this morning—use tax dollars as a direct subsidy to exit surplus grain from their shores. The U.S. longstanding ag policy of supply management idling land, plays directly into this advantage of the ECC and most of our world grain competitors.

This is so because the ECC policy is to plant its entire acreage with no set-aside. This policy is looked upon favorably because of the more fully employed society, with its attendant benefits of lower unemployment benefits and welfare costs. Their system is willing to accept the tax burden of offsetting a high farmer price with tax dollars, to lower grain prices sufficient to exit their shores. What I am saying is that our policy is in direct compliment to their policy, as we set aside lands with our supply management concept, they increase production with additional technology and other countries add more lands and fill the void, so that we are just gradually giving our grain share of the export market to the rest of the world.

In summary, America must play a role as a major world grain exporting nation. The longstanding ag policy of 50 years have provided America with the greatest quantity, quality and the lowest price of food ever known to a civilization. We must alter this policy by developing an internal ag policy which raises price supports to levels which relate to the business environment that our farmers must engage. The comment on that is that we really have two economies in America today. We have the rural farm economy and we have the city economy; and that farm economy is only engaging the city economy where and when it has to. It has stopped capitalizing new items. Absolutely stopped, because since 1980 the prices have marched progressively higher for the new items that we would buy.

Since 1980, everything we own has become with progressively less and the dollar in my pocket in farming today, to buy a used item or land, is worth at least three times what it was in 1980 because I can buy an acre of land for $1,000 and it would have cost $3,000 then. The same is true with used equipment.

The internal policy should parallel ECC policy to the extent it removes their present policy advantage of continued inroads into our share of the world grain market. The external policy must provide a buffer for the effects of currency fluctuations.

Farmers cannot absorb any further economic blows caused by the strong dollar. Because our ag policies are not clearly formulated in terms of internal and external policy, we have tended to look internally to solve an external problem of the ever stronger and stronger dollar. And the backlash has been that it has put every farmer's pocketbook into the fray and he has paid.

Recommendations: An immediate short-term policy which would stabilize the downward spiral of land prices. The President's veto of the Emergency Farm Credit resulted in fear in our lending agencies that a crash is imminent. Something must be done to restore confidence short term to allow a calculated, well planned, long-term solution. I believe that you gentleman must consider something of this nature to stop the deep-seated fear that is almost running rampant on the farm landscape.

Second, a tough sodbuster policy with paid diversion to set aside up to 20 million acres or more of highly erodible land. The current economic climate is such that it can be accomplished now at a far lower cost than at any time in the previous two decades.

Third, a two-price system, domestic and export, defining internal and external policy issues, will be necessary to serve as a buffer to mitigate currency and macroeconomic fluctuation.

I notice that whoever wrote the dialog on Senator Helms' bill talks about your committee being unable to speak unilaterally to macroeconomic conditions that prevail in our country, and I would challenge that statement to the degree that we have set internal and external policy and they do address in large part the macroconditions that exist in this country.

The flexible concepts of grain pricing are well conceived for pricing in the world market. However, when applied to U.S. internal economic conditions in which the farmer must operate, the results are impositions of world economic conditions upon the farmer. I believe a flexible internal ag policy is needed.

I think that is really what has happened to us. You have imposed worldwide conditions upon the American farmer by pushing these prices ever lower and lower, when you consider the other places of the world where grain is grown and costs maybe significantly less.

Titles II through XIV describe internal ag policy. The problem with the principles set forth within them without exception is an attempt to view internal farm problems through a singleminded policy solving both internal and external farm policy issues.

Title I is positive for exports. However, it fails to clearly define an external U.S. ag policy. It circumvents the real issue in world grain trade of retaliating against unfair trade practices and it is a halfhearted attempt to place the American farmer upon equal footing with our competitor external ag policies.

The flexible concepts of grain pricing are well conceived for pricing in the world market. I would like to see the Ag Department restructured by placing food stamps administration under the Health and Human Services Department.

They cost a great deal of money. When we look at an ag budget of 1984, I believe the President referred to $35 billion; $7 billion of that may be in the category of CCC farmer loan applications that are paid in the subsequent year, and yet they show up in that year as a budgetary cost.

It would place the ag budget in the public's eye in a much more correct perspective. Last, I would say that many of our people that I have talked with are uncomfortable with our Secretary, who has failed to speak out aggressively as an advocate for farm problems.

A case in point: Recently under the farm credit veto which the President chose to veto for reasons of a budget-buster, and I guess I can understand that. But needless to say here is the Secretary of Defense saying, I will not accept a penny less than $323.6 billion, when, in fact, the farm credit legislation proposed would have cost far less than the estimated $8.9 billion that was referred to. Some studies indicate a net cost of less than a half a billion.

Thank you for listening to me and I appreciate the opportunity to share these thoughts with you.

Senator **COCHRAN**. Mr. Johnson, thank you for being here and testifying. I get the message, I think pretty clearly, from your testimony that the farmer should not be the one to bear the expense of our Federal monetary and fiscal policy.

That is basically the problem right now; he is disproportionately being required to bear that burden. I do not know that we are going to agree on how we effectively do something to correct that, but I think that it clearly is a mission and goal of this committee to try to adjust that in a practical way.

We have got to have a healthy agricultural sector because it is so important to the economic well-being of the entire country, not just to one sector of our economy. Twenty billion dollars' worth of trade surplus results in agricultural trade, and 20 million people are indirectly employed because of agricultural activities.

It is just too important a part of our economy to say, "Well, you are on your own."

Mr. **JOHNSON**. That is right.

Senator **COCHRAN**. Senator Zorinsky.

Senator **ZORINSKY**. I have no questions, Mr. Chairman. Certainly, Mr. Johnson's testimony is in keeping with the concerns that we all have.

Mr. **JOHNSON**. I would like to make one final comment. As a farmer, I would much rather make it in the marketplace than I would to have it from subsidies. As I viewed both Senator Helms' and the administration bill, they envision huge payments to offset this drop as they go downhill—100, 80, 60, 40, and so forth.

The point I am trying to make to you gentlemen is that it is two policies, internal and external, and we would be far better off to set support levels internally where people can make it in the marketplace rather than to view them through these enormous subsidies.

We would be far better off to reroute these subsidies to external policy and start to play the same game the rest of the countries of the world are playing. You know, they have wheat boards and they use tax revenues to depress the price of grain.

We would be well advised to think in terms of a way to bring our grain back to a 1980 level, for instance, with these dollars so that we compete fairly and equally with the rest of these countries.

You know, the maze of external ag policy throughout the world, with Japan, Europe, Argentina, Brazil, Australia, and Canada—they all have very clearly defined external policies. We need to look at our external policy in terms of integrating our concerns into their concerns in such a way that we preserve and protect our place for these 2 out of 5 acres that are going to be exported.

Senator COCHRAN. Thank you very much. We appreciate your testifying before the Committee.

This concludes our hearing this morning. Hearings on the 1985 farm bill will continue later. We are in recess.

[Whereupon, at 12:39 p.m., the committee recessed, to reconvene at 9 a.m., Wednesday, March 27, 1985, in room 328-A, Russell Senate Office Building.]

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

Soybean Issues

WEDNESDAY, MARCH 27, 1985

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:02 a.m., in room SR-328-A, Russell Senate Office Building, Hon. Thad Cochran presiding.

Present: Senators Cochran, Andrews, McConnell, Zorinsky, Melcher, Dixon, Heflin, and Harkin.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. The committee will please come to order.

This morning, we continue our hearings on the 1985 farm bill, with testimony on the soybean program.

Compared with our other major commodities that are supported under the farm legislation of the Federal Government, soybeans are a relatively new cash crop in the United States. But production has increased very rapidly, with 66.1 million acres being harvested in 1984. This put soybeans in second place in crop value for the United States.

The crop is relatively free from direct Government programs. There are no acreage or production restrictions—only a CCC loan support rate.

This program has had little impact on the Federal budget. There have been only $37.4 million in net outlays over the life of the 1981 farm bill for soybeans. Annual outlays varied from a negative $585 million to $287.7 million.

This industry is very dependent on export markets, however. While the United States has accounted for slightly more than 60 percent of world production in recent years, it has retained over 80 percent of world trade. This level represents a decline from over 90 percent in the late sixties and early seventies. For the U.S. soybean industry to continue to grow, this downward trend must be reversed.

There are important issues that face the soybean industry, as we consider writing a new farm bill. We will be interested in hearing from our witnesses today any suggestions or observations that they can make to help us find a solution to the problems facing the soybean industry.

We have some outstanding witnesses who are scheduled to testify this morning, and because we have to clear the room at about 10 a.m. for a hearing that will be held here on the nomination of the Deputy Secretary of Agriculture, I am going to ask that all three witnesses come forward and testify as a panel. We will hear each one's presentation and then have an opportunity for discussion and a dialog among the entire panel.

If you will all come forward, I want to present to the committee Roger Asendorf, president of the American Soybean Association, from St. James, MN; Mr. Harry Bell, president of the South Carolina Farm Bureau, who is representing the American Farm Bureau Federation today; and John Sharp, chairman of the Alabama Farm Bureau State Soybean Committee, from Grand Bay, AL.

Before proceeding to recognize your testimony, I want to recognize the distinguished Senator from Kentucky, Senator McConnell, for any comments or statements that he would like to make at this point.

Senator McConnell.

Senator McConnell. Thank you, Mr. Chairman.

I would just like to ask unanimous consent that I could insert into the record an opening statement and I look forward to hearing from the witnesses.[1]

Senator Cochran. It will be included.

Thank you.

You may proceed, Mr. Asendorf.

STATEMENT OF ROGER ASENDORF, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, ST. JAMES, MN

Mr. Asendorf. Thank you, Mr. Chairman.[2]

I am, as you said, Roger Asendorf, a full-time farmer from St. James, MN, and am currently serving as president of the American Soybean Association.

The ASA is a national commodity organization that is controlled and run by farmers.

Mr. Chairman, the state of agriculture in 1985 is definitely not good. Farmers face low commodity prices with high interest rates, and now plummeting land prices as well.

But we have a chance this year to put profits back into the picture of our country's farms, and that is what we are here to talk about this morning.

Farmers today sell in the world marketplace because they have to. There is just no way that we could make it if all we had were our domestic markets, even with significantly higher prices than we have now. So that means that we have to be competitive, because we have to sell.

But as we all know, the export boom of the seventies now has given away to the export slump of the eighties. Exports have fallen in the last few years for several reasons, including world recession and Third World debt. But probably no one factor has been more responsible than the strength of the U.S. dollar.

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[1] See p. 520 for the prepared statement of Senator McConnell.

[2] See p. 521 for the prepared statement of Mr. Asendorf.

Mr. Chairman, my printed statement has in the back of it some graphs to show just what the high dollar has done to us. It is more or less basic economics, but the effective price of U.S. soybeans to our customers went up, and the amount that they bought from us went down. The last chart in the very back shows that the situation was especially painful for U.S. farmers. The price in German marks, as shown by that graph in the back, was on an uptrend, yet the price per bushel in dollars is trending down.

Why is the dollar so high? Again, there are several reasons. One major factor is that our budget deficit requires excessive Federal borrowing, and then keeps real interest rates higher than they would be otherwise. This, along with other factors, like tax-free interest on foreign capital investment, makes dollar investment attractive to people in other countries.

To put it bluntly, the Government is spending too much money at this point in time and competing for those funds available that farmers and the rest of the industry have to compete for.

Farmers are willing to accept their fair share of budget cuts, but only if others do likewise. We feel it is really not fair for agriculture to undergo these severe cuts while some other parts of Government really are only seeing reductions in their rate of increase.

ASA supports a pro-trade agricultural policy that will allow the United States to be a preferred supplier of agricultural products for the world market.

Let's talk about how we can get there from where we are today. This country must work for a fair international trade arena, and we must tailor our export sales to meet our customers' needs. And here are some of the specifics I am referring to, such as GSM-102 credit guarantees, which are very important in making the terms of commercial sales more attractive to our customers.

Let us remember that with the overvalued dollar, pricing us out of the world market, credit is one of the few things that we in the United States are able to offer competitively in the world market. Without those credit programs, we are uncompetitive.

We also need an intermediate credit program, somewhat like the GSM-102, but offering longer payment terms. Many developing countries could use a program like this, with 3- to 10-year repayment terms to buy those U.S. goods—more or less a bridge from the Public Law 480 to the GSM-102.

There is also a need for infrastructure investment in these countries. All too often, we lose sales in long-term markets because potential customers do not have the port facilities or infrastructure necessary to handle those imported commodities.

Development of foreign countries' infrastructure today means foreign markets both today and tomorrow. And for countries at the bottom of the economic ladder, there should be an enhanced Public Law 480 program. Many of the ideas in the Food for Progress initiative ought to be implemented, and they would complement Public Law 480 very well.

The common thread of market building runs through all of these programs. But, Mr. Chairman, we will not be able to build markets; in fact, we may not even be able to keep the ones we have got now, if our Government insists on applying cargo preferences to USDA export programs.

One example we are all familiar with is the recent court decision that said cargo preference should apply to blended credit programs. That means higher shipping costs that have to be passed on to customers, and it also means the blended credit program is effectively dead.

And the GSM-102 Credit Guarantee Program will be dead also if future lawsuits subject it to cargo preference.

We feel there is only one answer, and that is Congress must overturn this court ruling, and at the same time, reform our maritime laws. If we want to subsidize the maritime industry, let's put it in the Defense Department budget, where it belongs, and take it off the backs of agriculture.

We need truth-in-budgeting, and we need a total exemption of agricultural products from cargo preference—and that includes the Public Law 480 Program.

Switching to the domestic side, the American Soybean Association supports extending the current Soybean Loan Program without any change. The loan program is a source of credit and cashflow, and it protects farmers against extreme price drops. It does not provide a profit by itself, but it was not designed to do so. The loan rate for soybeans was set at 75 percent of a moving 5-year average of market prices, with high and low prices dropped. There is a $5.02 minimum loan, and this loan program has allowed supply and demand to balance, and has very low Federal budget outlays.

We believe that "If it ain't broke, don't fix it."

Mr. Chairman, there are many other issues facing ASA that we feel strongly about, notably, cooperative market development, where we need continued adequate resources from farmers and the public alike. There are more details on this and other issues in our printed statement, and we hope that you will all have time to read it.

In conclusion, our country has some important choices to make. The world has changed, and what worked in 1935 is not necessarily going to work in 1985. The agricultural policy has to respond to the international markets, if it is to be successful. We feel Government's role is to fight unfair trade practices, and put some effort and capital behind promoting our farm exports. That won't just help the farmers; we feel it will help all of America.

Thank you, Mr. Chairman, for the opportunity to testify, and I will be happy to take any questions, and I ask that the written text be submitted for the record.

Senator COCHRAN. Thank you, Mr. Asendorf. Your entire testimony will be made a part of the record, and we thank you for the full statement and for the explanatory graphs that you have attached as exhibits. They will also be included in the record of the hearing.

Mr. Bell, you may proceed.

STATEMENT OF HARRY BELL, PRESIDENT, SOUTH CAROLINA FARM BUREAU, REPRESENTING THE AMERICAN FARM BUREAU FEDERATION

Mr. Bell. Thank you, Senator.

The American Farm Bureau Federation is the largest general farm organization, with a membership exceeding 3 million member families in 48 States and Puerto Rico. I serve as president of the South Carolina Farm Bureau Federation and as a member of the board of directors of the American Farm Bureau Federation.

I appreciate the opportunity to appear today before the Senate Agriculture Committee, regarding the American Farm Bureau Federation position on the soybean provisions of the 1985 farm legislation.

Farm Bureau members devoted extensive time and effort to develop our policies, which are debated, amended and revised by voting delegates from each of our member States at our annual meeting. In January, at our 66th annual meeting, our delegates adopted policies regarding farm programs in general and policies specific to programs for soybeans.

Our general farm policy states that we will support a farm bill which will: (1) Maximize long-term opportunities for profit in agriculture; (2) reduce existing incentives for overproduction at home and abroad; (3) ensure price-competitiveness for U.S. farm products in world markets; (4) provide opportunities to reduce stocks through production adjustments and/or expanded demand; (5) assure consumers of adequate supplies of efficiently produced products that they wish to consume; (6) cause a supply reduction program to be implemented when carryover exceeds workable levels; (7) provide target prices as an income supplement for farmers to help them make the adjustment to market-oriented agriculture; (8) provide loan levels for all major export commodities to facilitate orderly marketing and price competitiveness. These levels should be related to a 3 to 5 year average domestic price. Loan levels should not provide incentives for production that exceed demand in domestic and world markets. These levels should be adjusted annually by no more than 10 percent. And, (9) recognize that all commodities are interrelated and any change in supply, demand or price of one affects the others.

Since the annual meeting in January, our organization has concentrated efforts on developing a legislative proposal for the 1985 farm bill based upon the philosophy and direction expressed in the general policy statement.

Our board of directors has held two meetings to consider the specifics of this proposal. The organization has held regional leadership meetings and commodity advisory committee meetings, where this proposal was considered and debated. The result is that our proposal is supported by our membership in all regions of the country and for all commodities covered directly under the farm program legislation as well as those not operating under direct authority of the bill.

Because of this broad base of support, we sincerely hope that this committee and all members of the Senate and House will closely evaluate our proposal when developing legislation to replace the Agriculture and Food Act of 1981 when it expires this year.

The farm program provisions directly applicable to soybeans consist only of nonrecourse loans that give producers an orderly marketing tool without acreage reduction programs, target prices, deficiency payments, or a farmer-held reserve program. We believe that the loan program has worked well in the case of soybeans and propose that it be continued in its present form. We would not propose that any additional program provisions be added to the soybean title of the 1985 farm bill. Our policy regarding soybeans simply states: "We oppose acreage control, marketing quotas, and the establishment of a soybean reserve program."

The soybean loan rate is established at 75 percent of a 5-year average market price, excluding the high- and low-valued years. This method of setting the level of support loan works well in that it is derived from signals obtained in the marketplace, rather than from political pressures associated with loan levels set by Congress or at the discretion of the Secretary of Agriculture. We firmly believe that this method of setting a loan rate is appropriate and should continue under the 1985 farm bill. In fact, we support the use of this method of setting loan rates for other commodities under farm program authority such as wheat, feed grains, and rice.

Loan levels that are established in this manner provide producers the orderly marketing tool that the loan was intended to be, without setting the market price, as has been the case with loan rates for some crops that are fixed inflexibly by law.

We believe in order to avoid wide fluctuations in loan levels that adjustments to loan levels be limited to 10 percent per year. This restriction provides an appropriate degree of consistency from year to year, while allowing changes signaled by supply and demand to occur incrementally.

Farm Bureau also supports maintaining the current $5.02 minimum loan level, subject to the provisions which are now in the law and as presently exist, allowing a further maximum reduction to a floor of $4.50, if average prices received by farmers are below 105 percent of the loan level. This minimum level is low enough to assure that our soybeans will be competitive in world markets, but it also gives American farmers a floor under the price-support loans. Since soybean producers operate without income support in the form of deficiency payments, this loan-level floor is justified.

We believe that a soybean program that consists exclusively of a nonrecourse loan program as I have outlined is the best type of program for soybean producers. Such a program is responsive to market signals and is not costly, while it provides producers an orderly marketing tool.

We would oppose adoption of a target price, acreage reduction requirements, or a reserve program for soybeans. The soybean industry has maintained efficiency and competitiveness without programs of this nature, and we believe that situation will continue.

Our membership is basically saying that in the case of farm programs for soybeans—I hate to be repetitive, sir—but "If it ain't broke, don't fix it," as my friend has already pointed out.

I would, however, add to this statement, and it is not part of the printed text, but we do urge a strong export title in our proposal, and of course, many provisions of that export title would be applicable to soybeans, if in fact the Commodity Credit Corporation held inventories of products, then the Bonus Export Program might be applicable, and certainly, again, as has already been testified, we strongly oppose the cargo preference and do not feel that cargo preference should apply to agricultural commodities.

We thank you for this opportunity to present the American Farm Bureau's position, and we look forward to working with this committee and others in all aspects of farm program legislation.

I will be happy to respond to any questions.

Senator COCHRAN. Thank you very much, Mr. Bell, for your testimony.

Senator DIXON. Mr. Chairman, may I interrupt?

Senator COCHRAN. The Senator from Illinois.

Senator DIXON. I thank the Chair for letting me interrupt. I have made a brief statement and left it with the reporter. I have a meeting of the Armed Services Committee, and I ask the Chair to excuse me for that reason.

But I was wondering—I have checked, and I am told, that we will not vote on Mr. Norton at 10:30 today. Is that the understanding of the Chair?

Senator COCHRAN. I have no word on that. All I know is that we will have a hearing. He will be here to testify and to respond to questions of the Senators. That is all I know. The hearing will occur at 10:30.

Senator DIXON. Well, I just want to say to staff, if there is a vote, I will be in the Armed Services hearing room and can be reached in 222 Russell.

Senator COCHRAN. We will get in touch with you if there is a vote.

Senator DIXON. I thank the Chair.

Senator COCHRAN. Thank you, Senator, and your statement will be included in the record.[1]

Mr. Sharp, you may proceed.

STATEMENT OF JOHN SHARP, CHAIRMAN, ALABAMA FARM BUREAU STATE SOYBEAN COMMITTEE, GRAND BAY, AL

Mr. SHARP. Good morning, Mr. Chairman.

I am John Sharp, representing the soybean division of the Alabama Farm Bureau Federation.

I farm approximately 1,000 acres of soybeans in Mobile County. I am active in my State and county farm bureau and currently serve as chairman of the Alabama Soybean Producers.

I was privileged by this committee to serve as a member of the USDA Soybean Research Advisory Institute, and I should like to submit this copy of the U.S. Soybean Production and Utilization Research into the record, sir.

Senator COCHRAN. It will be made a part of the record as an exhibit to your testimony.[2]

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[1] See p. 521 for the prepared statement of Senator Dixon.

[2] See p. 530 for the prepared statement of Mr. Sharp. The publication referred to by Mr. Sharp has been retained in the committee files.

Mr. SHARP. Thank you.

In testimony today, I shall limit my remarks to five topics which are of vital interest to the soybean producers of Alabama—namely, the Soybean Loan Program, research, double-cropping, trade policy, and soybean exports.

In the interest of time, I will summarize my testimony.

The current Soybean Loan Program is authorized under the 1981 act and provides our commodity a safety net without involving any direct Government payments, production controls, and only minimum Government program costs. We recommend retaining this formula in the 1985 bill.

The recent deterioration of prices in the U.S. markets has not been caused by overproduction. It is the result of forces over which the soybean farmer had no control. The effect that this deterioration would have on the soybean loan values, if calculated without the $5.02 floor, would remove the safety net for soybean producers. We therefore advocate retaining this floor. At this level, considering present and anticipated increases in the cost of production, the soybean loan would not provide a stimulus for production in this or any other nation.

In addition, Mr. Chairman, we do not feel that all commodity programs must be identical. We feel that each commodity is unique. The economics of production, handling, utilization, and marketing should be considered for each individual commodity.

Under the heading of research, rising production costs, low yields, and low prices have reduced soybean profits to levels which border on economic disaster. Research has provided increased knowledge into the control of these problems, but a great deal more is required. The teams of scientists, technicians, and students assembled in our land grant colleges and universities and experiment stations must have the funding to continue their work. It is essential that added emphasis be placed on the development of new and improved uses of soybeans and that improved marketing practices be developed.

Mr. Chairman, research is what has made agriculture in America great. We must continue to improve or we shall ultimately cease to be competitive.

Under the heading of double-cropping, in Alabama and the Southeast, double-cropping soybeans and wheat has become a common and profitable practice. Double-cropping provides income from the two crops which are grown on the same acre in the same year. The wheat harvest in early summer provides badly needed cash flow. Soybean yields are somewhat reduced, due to late planting, but the combined income brings an acre of southern farmland closer to that of the midwestern farmer, who produces either wheat or soybeans.

The economics of double-cropping wheat and soybeans depends on the type of operation, the utilization of the wheat—feed or cash crop—the market for the two crops, the weather, control methods, and many other factors. Under optimum conditions, double-cropping will return an Alabama soybean farmer more profit per acre than a single crop of soybeans. My written testimony describes the economics of the double-cropping system.

The increased efficiency, land utilization, and economic potential for double-cropping, where growing seasons and land permit, should be considered when the acreage reduction programs are being developed. Such programs in the past have failed to consider these factors and have been prejudicial against Southern producers.

Under the topic of trade policy, until recently, soybeans have been successful in international markets. A stagnant world economy, U.S. embargoes, foreign trade barriers, predatory trade practices, and macroeconomic policies of the U.S. Government have severely eroded American markets.

We ask this committee to use every means possible to restore world markets to a truly competitive status. This should include the utilization of blended credit, the adequate funding of export credit in either direct or guaranteed loans with favorable terms to qualified customers, the employment of an export PIK using surplus CCC commodities, countervaling duties on products for nations which employ predatory export practices, full utilization of Public Law 480, including the authority to allow payment for American products in foreign currencies, the complete elimination of cargo preference on all agricultural products, and full protection of the sanctity of contracts except in instances of true national emergency.

American agriculture must be allowed to compete in fair and free world markets. We ask this committee sincerely to provide us with the tools to become truly market-oriented in free and fair markets. Proposals to lower our prices to provide the least common denominator in world markets are naive and destructive.

The demand under exports, sir, for soybeans traded on world markets is in large measure created by the desire for improved standards of living in all nations of the world. In recent years, the growth of the economies of trading nations has been slow, and anticipated growth severely limited.

It is the policy of the Alabama Farm Bureau Soybean Committee to favor all actions which will stimulate established markets and establish new markets.

Mr. Chairman, in closing, may I say that I appreciate the opportunity to appear before you today and to testify in the interest of Alabama soybean farmers.

Thank you.

Senator COCHRAN. Thank you very much for your excellent statement, Mr. Sharp.

You know, we hear a good deal about market-oriented farm programs, and the administration is said to have presented to this committee and to the Congress a proposal for a purely market-oriented approach. But I wonder whether that is the real answer that we need to the problems we face in agriculture today. For instance, the Soybean Program is about as market-oriented as you can get. The loan rate that is established for soybeans is directly related to market prices. It is an average over a 5-year period, and it is 75 percent of that average, so it is market-oriented.

But given that, we have seen in the last few years a substantial and sharp decline in sales of our soybean products in overseas markets. What I am getting to is this: If this is a market-oriented program, why are we failing in the market?

Anybody can answer.

Mr. ASENDORF. I think one of the main problems that we see with the situation that exists in agriculture today, even though we, a soybean association, soybean farmers, have basically the same program in place as proposed by the administration, the strength of the U.S. dollar in overseas markets has relatively made us uncompetitive because of that strength.

We see the United States trying to compete in a market with countries who are our main competitors, such as Brazil and Argentina, who have anywhere from 250 to 400 percent inflation rates. Consequently, even though we are under a market-oriented program, with that kind of exchange rate, when soybeans leave the port of New Orleans at $6 per bushel, and are arriving in Rotterdam costing $11 in foreign currency after the currency exchange, that makes us uncompetitive. Even though we are marketing under that concept, with the dollar as strong as it is, and depending on 50 percent of everything we grow going for export, we are uncompetitive under those conditions.

Senator COCHRAN. Well, I guess we can conclude that.

Senator ANDREWS. Well, Mr. Chairman, can I ask just one question? You say that prices range from $6 to $11. There is a 35 percent gap in our currency. How does that account for that kind of a gap?

Mr. ASENDORF. In the back of this written testimony are some charts showing the currency conversion——

Senator ANDREWS. I know; it is about $1.35. But a figure of $1.35 does not result in prices going from $6 to $11. The freight charge to move a bushel of soybeans across the pond is not $3 or $4, is it?

Mr. ASENDORF. That is with freight rate and currency evaluation——

Senator ANDREWS. I know, but how much is the freight rate?

Mr. ASENDORF. Depending on the country it is going to, I am not sure exactly the specific——

Senator ANDREWS. Give us a round figure.

Mr. ASENDORF. Randy, can you help on that? [Conferring with staff.]

Senator HEFLIN. Somebody testified the other day relative to corn——

Senator ANDREWS. I think it is in the neighborhood of $1 or less, isn't it?

Mr. ASENDORF. Yes.

Senator HEFLIN. Someone testified it is 35 cents a bushel, or somewhere like that, freight charges, I believe, in corn or one of the commodities—or wheat.

Senator COCHRAN. I think I will pursue my questions, and if you have questions, you will be recognized in order.

Senator ANDREWS. Fine. My apologies, Mr. Chairman. I thought we could get a quick answer to it.

Senator COCHRAN. Let me finish my questions, if you will permit me, and then everybody can have a chance to ask questions.

If we have just a flexible loan rate as a farm program, therefore, as a means to guarantee successful exporting, we may fail to increase exports. Is that right?

Mr. Asendorf. That is right.

Senator Cochran. In that connection, I am wondering whether or not we should explore another proposal. I am specifically referring now to the Marketing Loan Program. I do not know whether you are familiar with it, or to what extent you are familiar with it. Under this program, farmers would be able to receive a nonrecourse CCC loan, just as in current Price Support Programs. However, the repayment would be at the lower of either the loan or the world price. The objective of this program is to make U.S. farm products competitive in all trade, both domestic and international.

As I understand it, the proposal could neutralize subsidies, but allow for overvaluation of the U.S. dollar in world trade. There are other aspects of it.

I bring it up to ask each of you if you have any comments about that program, whether or not you think it is an idea worth pursuing, or what your reaction would be to it. Could the soybean growers around the country support that?

Mr. Asendorf. We have at this time no policy on that particular proposal, but we do feel that there are certain things in that bill that we feel that we could agree to. It does have the potential for increasing exports, getting us out of this and through the transition period, from the programs we have in all commodities to the market-oriented program. We feel there are benefits and possibilities in that legislation.

Senator Cochran. Mr. Bell?

Mr. Bell. Senator, the Farm Bureau membership was aware of this proposal at the time we were developing policy, in the fall of last year and the spring of this year, or January of this year, and we did not embrace this particular approach.

However, you are exactly right that we have got problems as far as the exportation of all of our agricultural commodities. The strong dollar is one of our difficulties. I noticed even yesterday that in 3 days' time, the Brazilians had devalued their currency three times in 3 days. Now, this is competitiveness that we cannot deal with in any of our agricultural commodities.

But as an offset to that, we do have some specific ideas as far as the exportation is concerned, such as the CCC export credit programs, and we feel that we do need to have credits from 3 to 7 years, as provided in the Agricultural Trade Act of 1978; the Blended Credit Program; I have already mentioned the cargo preference laws, which give us an extremely hard time. I have also mentioned the Bonus Export Program, which we would hope would be available, and if the CCC held any soybean stock, those should be pursued, and other innovative ideas. But we have not specifically embraced the provisions you speak to.

Senator Cochran. Mr. Sharp.

Mr. Sharp. Mr. Chairman, may we accept this question as a challenge and consult with our State leaders and our State people on this question and get back to you?

Senator Cochran. I would like to have your reaction to it. That would be very helpful to the committee if you would look at that program and the proposal and let us have your reaction to it. I would appreciate it.

[The following information was subsequently submitted by Mr. Sharp:]

The market loan concept, as we view it, would be a tool that U.S. agriculture could use to become very competitive in world markets. It would establish a world price-finding mechanism and provide the American farmer a method he could use to market his beans.

Using the market loan idea, a farmer obtains a nonrecourse CCC loan. He would then redeem his loan at the world market price. The decision to market his beans would then be entirely left up to him. There are several advantages both to the farmer and the government. It removes the possibility that the government will take possession and ownership of the soybeans and obviates the necessity for the government to continue paying storage and interest. When the farmer redeems the loan at the world market price, he gains the difference in the loan rate and the lower world market price. He assumes ownership of his beans again and has the option of selling them when he wants. The advantage to the government are that there is less cost in the long run and that the government is not burdened by excessive stocks. Utilizing market loan would make U.S. agriculture more market oriented. The greatest advantage, however, is that of meeting world competition. In summary, it is our opinion that the Agriculture Committees of the Senate and House should study this market loan concept further and consider its implications in formulating the 1985 Farm Bill.

Senator **COCHRAN**. Senator Melcher.

Senator **MELCHER**. Thank you, Mr. Chairman.

Mr. Asendorf, is St. James on the northern fringe of the Corn Belt?

Mr. **ASENDORF**. I am on the southern fringe of the Corn Belt of Minnesota—the northern edge of the Corn Belt nationwide, yes.

Senator **MELCHER**. What is the general, run-of-the-mill corn yield in that area of Minnesota?

Mr. **ASENDORF**. My crop yield last year for corn was 156 bushels.

Senator **MELCHER**. Is that the average?

Mr. **ASENDORF**. In that particular area in our county, maybe a little above average, but close to average.

Senator **MELCHER**. If the Corn Program proposed in the administration were adopted, what would happen?

Mr. **ASENDORF**. As it stands now, as it is proposed now?

Senator **MELCHER**. Right.

Mr. **ASENDORF**. Yes; I do not think you would get any corn growers in that area to go along with them.

Senator **MELCHER**. What would be the effect on soybeans?

Mr. **ASENDORF**. Some of the changes that are in it, we probably are not necessarily agreeable to.

Senator **MELCHER**. If the farmers were not in the Corn Program, what would they grow?

Mr. **ASENDORF**. If they did not go into the Corn Program at all?

Senator **MELCHER**. Yes.

Mr. **ASENDORF**. They would still grow some corn, but a lot of it would go to beans. In my area, it is corn and beans. There is no wheat grown in southern Minnesota.

Senator **MELCHER**. To the extent that target prices at a certain level keep farmers in your area growing more corn than they do soybeans, it limits the production of soybeans in your area.

Mr. **ASENDORF**. Yes.

Senator **MELCHER**. Therefore, are you for the Corn Program?

Mr. **ASENDORF**. Not as is proposed by the administration.

Senator **Melcher**. However you feel the administration is correct in terms of the Soybean Program.

Mr. **Asendorf**. It is in some respects. However, it is not exactly the same as what we are looking at in the Soybean Program. We are not saying that we would be opposed to it in the long run, but an immediate transition with that program, with no bridge in the meantime—it goes to a completely market-oriented program for all commodities in 1 year.

Senator **Melcher**. How about in 6 years?

Mr. **Asendorf**. I think it would be acceptable in 6 years. If the administration has in its proposal along with that, increased efforts in export market promotion it will offset the target price influence.

Senator **Melcher**. So you feel as the administration does, that corn farmers are going to raise the same amount of corn at $2.

Mr. **Asendorf**. If it goes to $2 per bushel, they will not be planting corn.

Senator **Melcher**. More accurately, they might be broke.

Mr. **Asendorf**. Right.

Senator **Melcher**. That does not help soybeans, either, does it?

Mr. **Asendorf**. No, it does not.

Senator **Melcher**. On the export side of it, you mentioned GSM-102 and GSM-105, and Food for Peace. I think you stress the right point.

You just mentioned that the Brazilian money was devalued. The Brazilian money had to be devalued, so do many of the countries that have economic stress now or they will not get agreements from their creditors, many of them who are banks in the United States. Without devaluation they will not get the IMF loans that they need, or the restructuring of loans with commercial banks. As a matter of fact, they will not get along with the United States.

That devaluation is forced; it is not necessarily what they would like to do.

I think we are in a bind. The type of trade policy that this country can project in the next few years had better be on terms and conditions that fit each country. Generally speaking for these countries that are under stress, that is going to mean selling cheap or selling on favorable terms that can be considered a substantial discount in price.

Do you all adhere to that or not? You mentioned using these programs, but the success of these programs, which have not been used to capacity at all in the last several years all get down to one thing—a reduction in price. Can we absorb it? Do you agree to that?

You may get the same price, but if it is really a reduced price to the buyer, Uncle Sam absorbs something on terms or conditions or donations. That reduces the price so we can stay in the markets of the individual countries.

Do you adhere to that?

Mr. **Bell**. Senator, we have got to find some way to keep the U.S. farmer in production, and I think therein lies the secret of where we have got to have some Government assistance. We as farmers cannot compete with foreign governments.

Senator **Melcher**. I think that is the correct answer. Unless it is done that way, you are going to see these exports drop—I cannot understand some of your charts, Mr. Asendorf. One of them seems to indicate that we sold less to Japan than we did in 1974, even though the price was lower.

Mr. **Asendorf**. Using Japan, for instance, the change in the fluctuation of currency versus what they paid for their beans is not as extreme as it is in some of the other countries, basically because of the strength of the yen as opposed to some of the foreign currencies of, say, the Netherlands or Germany or Italy and Spain.

Senator **Melcher**. I see.

Mr. **Asendorf**. It demonstrates that even though the price that we receive for our soybeans here is low, in their currency, it is high. As the prices of our commodities go up, the price of their currency goes up, immediately our exports to those countries fall.

Senator **Melcher**. Thank you.

Mr. Sharp, you were going to make a comment.

Mr. **Sharp**. Senator, I would add that not only are we competing with Brazil and Argentina, but also, we are hearing more and more that Russia is buying beans in substantial sizes from Communist China. And, if Communist China wakes up to realize what they do have, the American farmers are going to be in even worse shape than they are now.

Senator **Melcher**. Thank you very much.

Senator **Cochran**. Senator Andrews, questions?

Senator Andrews. Thank you, Mr. Chairman, yes.

I would like just for a moment to get back to this $6 per bushel soybeans when they leave our shore and become $11 when they get there. I am not challenging these things, but the reason we have these hearings, I might point out to you, is so that we can develop a base of facts. When we take our bill to the floor, we must be sure that we can go back and refer to this information, just in case our colleagues ask any questions. Additionally, when we get into discussion later on, around this table, and to try to decide just where to go in soybeans or feed grain legislation, the testimony that you make is extremely helpful to us.

Along that line, it is intriguing to hear that the $6 soybeans that leave our shore become $11 soybeans. Now, how much of that cost is freight, and how much of that is currency?

Based on the currency, I would think the $6 soybean goes to $8 because of currency, but I did not think that there was a $3 charge for shipment.

Mr. **Asendorf**. No, no; there is not. There is not. We can supply the committee with an updated, exact price of exported soybeans today, and give you an exact landed price in Rotterdam or the individual countries.

Senator **Andrews**. Well, you know, I raise soybeans in the Red River Valley—you raise them in southern Minnesota. My yields do not quite approximate yours, but I can understand the problems you have. My problem is complicated by the fact that $6 soybeans leaving our shores becomes $11 over there, and now, what we need is the breakdown.

Your charts on the back, of course, show the cost in dollars and in marks. Well, the mark has been going one way, and the dollar has been going the other. But in addition, the price of the bean here at home has been changing sharply. The soybean was worth

$2 to $3 more per bushel a couple, 3 years ago than it is now, and that may well enter into this equation.

So, if you could, where does that $5 come from? Does part of it include the import tax charged by the Europeans?

Mr. ASENDORF. No, no; the difference in our exported price and the landed price is the currency exchange after the dollar is exchanged for their currency, plus freight rate.

Senator ANDREWS. But the currency exchange—and I will put my Budget Committee hat on—the currency exchange has that $6 per bushel soybeans go up to $8 when it lands, because it is about a third.

Are you, then, telling the committee that it costs $3 to ship a bushel of soybeans to the Europeans?

Mr. ASENDORF. No, it does not.

Senator ANDREWS. How much does it cost?

Mr. ASENDORF. Exactly, well, I cannot say that——

Senator ANDREWS. In the neighborhood of 40 to 50 cents?

Mr. ASENDORF. I think it is closer to 80 cents.

Senator ANDREWS. Let's accept that, in the neighborhood of 80 cents.

Mr. ASENDORF [conferring with staff]. What was just told to me is that you may be looking at different base years, 1981 versus 1985, as far as——

Senator ANDREWS. Are you taking the price of the soybean per bushel in 1981 and factoring that ahead and saying if the price today was that figure, then the $6 soybean would become $11?

Mr. ASENDORF [conferring with staff]. Yes, that is what they have paid in the equivalent of their currency.

Senator ANDREWS. Well, then, what you are telling the committee is that the $6 soybean as it leaves the port in the United States has $2 added because of currency differentials, has about 80 cents added because of shipping charge, and has $2.20 added because that is what soybeans were worth more 3 years ago; am I correct?

I am not trying to confound you. I am trying to get the thing down so when we look back at it 1 month from now it will make sense.

Senator HEFLIN. While they are talking about it, I believe we had some testimony here previously that the exchange rate added at the height was $2 to the bushel of soybeans.

Senator ANDREWS. That is right. Well, that is what I have, Howell, is that it goes from $6 to $8 because of exchange rate, but that leaves me with a gap of $3.

Mr. ASENDORF. If today's exchange rate had been in place in the year of 1981, the price would be $11 in their currency—equivalent to $11 in their currency.

Senator ANDREWS. Yes, because the soybean then was worth about $2 more per bushel than it is today in the United States—in American dollars.

Mr. ASENDORF. Yes, in U.S. dollars.

Senator ANDREWS. In American dollars. So then, my arithmetic is that the $6 goes to $8 because of today's currency exchange. If you add another 80 cents for shipping, then you add another $2.10, or thereabouts, because that is how much soybeans have dropped in price in the domestic market since 1981. That is how you arrive at the $11 figure.

Mr. **Asendorf**. Yes.

Senator **Andrews**. I just wanted to make that clear, Mr. Chairman. I appreciate that, and we appreciate the testimony. It is extremely helpful.

One question, to follow up what Senator Melcher said. If the price of corn went to $2, you said nobody would raise corn in your area. What would they raise?

Mr. **Asendorf**. They would raise soybeans in my area.

Senator **Andrews**. What price would soybeans be at if corn was at $2?

Mr. **Asendorf**. That is a good question. I really do not know what it would be.

Senator **Andrews**. Does your crystal ball work any better than mine?

Mr. **Asendorf**. No. I cannot see that corn would necessarily go to $2 immediately, but it definitely could happen. There would still be a certain amount of rotation. There would not be a complete shift away from corn, but when you look at corn versus soybeans as far as input cost, in my particular farming operation, there is no comparison to what it costs me to grow a bushel of corn, compared to what it costs me to grow a bushel of soybeans. Consequently, it is the crop of least input.

Looking at it from that standpoint——

Senator **Andrews**. The corn?

Senator **Heflin**. There would be more crop for an acre of corn rather than in an acre of soybeans?

Mr. **Asendorf**. Today?

Senator **Heflin**. I mean, your comparison, rather than a bushel per bushel, your comparison ought to be on an acre versus an acre, shouldn't it?

Mr. **Asendorf**. Yes. What I am getting at is, are you referring to the $2 per bushel corn?

Senator **Heflin**. Well, now, you are making a comparison, and of course, the average yield of bushels of corn per acre, as compared to the average yield of soybeans per bushel per acre——

Mr. **Asendorf**. Yes. I grew 156 bushels of corn last year, and I grew 44 bushels of beans.

Senator **Heflin**. Well, that is what I am talking about.

Senator **Andrews**. What does it cost you to produce a bushel of corn?

Mr. **Asendorf**. What does it cost?

Senator **Andrews**. Yes.

Mr. **Asendorf**. I would guess it is right now running around $2.40 per bushel.

Senator **Andrews**. What does it cost to produce a bushel of beans?

Mr. **Asendorf**. I am looking at about $5.30.

Senator **Andrews**. Yes, sir?

Mr. **Bell**. Senator, excuse me for injecting myself, but you asked a question that I feel I would like to put a little answer on.

Senator **Andrews**. That is absolutely what we want when we are trying to make this record.

Mr. Bell. You were talking about $2 corn, and you used the 2½-to-1 ratio. You are talking about $5 or less soybeans. I think I know where the farmer will go; he will go belly-up.

Senator Andrews. Well, I get that sneaking suspicion myself.

Mr. Bell. I have more than a suspicion, Senator.

Senator Andrews. My son just told me, that we will be planting about 480 acres of soybeans next year, so I am probably one of the most prejudiced people on the other side of the table concerning this situation. It is very helpful to hear your analysis, and it is helpful to get your cost of production. That is, of course, what we are driving at. You are probably one of the better farmers, one of the better-equipped farmers, in one of the better soybean- and corn-producing areas in this country, and those are your costs of production.

Now, one final question. Does that cost of production include your land costs?

Mr. Asendorf. Yes, it does.

Senator Andrews. How do you figure your land cost? At the comparable rate of rental land?

Mr. Asendorf. In my particular case, I figure my land cost to be what my interest cost is on the debt I have against the land.

Senator Andrews. OK, but the components of that $2.40 cost of production per bushel of corn is not what the tenant farmer, the renter, would have to pay in cash rent.

Mr. Asendorf. That could be significantly higher, because rent right now in my area is running at $120 to $115 per acre.

Senator Andrews. What is the land costs associated with the cost of production per bushel of corn?

Mr. Asendorf. As far as just the interest cost?

Senator Andrews. Yes.

Mr. Asendorf. Eighty bucks.

Senator Andrews. Eighty bucks.

Mr. Asendorf. If I was basing it on a rent situation, then I would have to be figuring $120, because——

Senator Andrews. One hundred or one-twenty?

Mr. Asendorf. The last farm that was rented near me went for $120.

Senator Andrews. What figure, and I do not want to put words in your mouth, what figure do you think should be used accurately for rental costs, rental charge, in this equation?

Mr. Asendorf. There is virtually no way that you could put an exact figure on that, because it varies with each individual. There are farmers who have $160——

Senator Andrews. But would the person who is renting land, be paying $40 an acre more than you are for his land charge?

Mr. Asendorf. Yes; if he pays $120.

Senator Andrews. Well, that $40 would then be the equivalent of about 30 cents per bushel in additional costs, so your $2.40 cost of production on your farm would equate to your neighbor, who is renting his land, at a $2.70 cost of production.

Mr. Asendorf. That is right.

Senator Andrews. That rental charge does not pay the interest on today's cost of that land at today's interest charges, either. That is just the rental charge.

Mr. **Asendorf**. That is right.

Senator **Andrews**. You have been most helpful. Thank you.

Thank you, Mr. Chairman.

Senator **Cochran**. Senator Heflin.

Senator **Heflin**. Mr. Sharp in his testimony, I thought very clearly made a very cogent point when he said:

> We do not feel that all commodity programs must be identical. We feel that each commodity is unique. The economics of production, handling, utilization, and marketing should be considered for each individual commodity.

The administration has come up with basically using the soybean as a model and has developed a formula or program, largely based upon—not altogether, but largely—based on the basis of what soybeans have done. I know the American Farm Bureau, in their position, differs somewhat with the treatment, particularly relative to how you handle a loan rate. But does the American Soybean Association agree that each commodity is unique and different and that you have to handle programs differently, and that the economics of production, handling, utilization, and marketing should be considered for each individual commodity differently? Is that the position of the American Soybean Association?

Mr. **Asendorf**. The American Soybean Association's position is just that. We feel that the differences between the commodities dictate the necessity for some specific portion for each commodity.

Senator **Heflin**. Do you have anything you want to add to that, Mr. Bell?

Mr. **Bell**. I think you have accurately stated it.

Senator **Heflin**. So now, Senator Cochran and I put into the appropriations bill an additional $2 billion under the GSM-102 Program for 1985, and the language pertaining to it limited it—it had to, because of the way it was worded—to cotton and to soybeans. We inquired of the Department of Agriculture how much in 1985 of that additional $2 billion has been used, how well it has been utilized, in trying to increase export sales. We have not yet received an answer to it.

But I just wondered, from the viewpoint of the American Soybean Association, have you been monitoring that aspect of it, to see whether or not the Department of Agriculture is utilizing a tool to increase export sales that they have been given during this year?

Mr. **Asendorf**. We feel that they have not been using it as much as they could. I think the potential is there, and if they really would extend it to its limits, they could be using it more. We feel we would like to see them do so.

As of right now, our figures are close, but not exact, that $1 billion of the $5 billion have been used to date. Consequently, if there was ever a time for them to use it—and incidentally, we appreciate that additional $2 billion in GSM-102—if there was ever a time that they should be using it, now is that time, because our credit programs today are all the United States has going for it as far as agricultural exports are concerned. There is no way you can compete openly with the dollar this strong, in the open market. The United States is basically the only country that has credit programs to allow some of the lesser developed and poorer economic countries the ability to purchase the commodities that we have for sale now.

Senator HEFLIN. Well, I would suggest that in the remaining months left in fiscal year 1985, that your association start building a fire under the Secretary of Agriculture relative to the usage of this fund. If it is going to be used effectively, I think since it is allocated for 1985, that this is a challenge to your association relative to that matter.

Mr. ASENDORF. Thank you.

Senator HEFLIN. What percentage of the production of soybeans goes into oil? Does anybody have an idea?

Mr. BELL. Do you mean of the individual bushel, Senator?

Senator HEFLIN. I mean production as a whole. Is it 10 percent, 35 percent of something that finds itself into production of soybean oil.

Mr. BELL. Eighteen percent.

Senator HEFLIN. Eighteen percent. A sizable amount.

Mr. ASENDORF. That is of a bushel.

Mr. BELL. So, 18 percent of 60 pounds is——

Mr. ASENDORF. Forty percent of the value.

Senator HEFLIN. Well, of the entire production that is produced.

Mr. ASENDORF. How much of that?

Mr. BELL. It is 18 percent of volume. It does vary from year-to-year slightly, Senator, but roughly.

Senator HEFLIN. There are some proposals on some other commodities which go into oil that have been made which would, in my judgment, force those commodities into more oil production than they are in today, and open up a competition with soybeans into that, and one is peanuts. The proposal that has been made could have some substantial effect on the soybean oil market. I would just suggest that maybe you all might want to look into that.

Now, Mr. Sharp, you mentioned unique aspects of Alabama, and of course, it covers Mississippi, it covers the Southeast generally, the double-cropping, and increase in wheat production. I think now, wheat is the second major crop in most of the Southeastern States. Soybeans are, of course, first. We have seen a great deal of increase in it.

What is unique about growing wheat and soybeans in a double-crop system, and why is it important, say, to the Southeast? Could you elaborate?

Mr. SHARP. Yes, sir, thank you. First of all, Senator, the Southern States, of course, are blessed with a long growing season—the Sun Belt, as we refer to it—adequate rainfall, good ground water conditions, good aquifers. We are able to grow wheat and soybeans because it effectively uses the good earth. We are putting our equipment to better use, utilizing our equipment, keeping our fertility rates high, because we lack the yields in the Southern part of the States that they do in Mr. Asendorf's part of the world. Alabama enjoyed only a 21-bushel yield State average last year, in comparison to Mr. Asendorf's 42. So we have to do something. We have found that wheat is a good double-crop system.

One more double-cropping system that we are able to use in the Southern States is that we can apply on a abruzzi rye grass and overseed the canopy of soybeans and begin to get a growth factor in our soybeans, and when we cut our soybeans, we are also cutting the top part of winter grass, where we can then, in turn, after we have combined our soybeans, be able to put cows on top of that crop and, also give a good cover, thereby increasing the efficiency of the soil and eliminating soil erosion.

Senator HEFLIN. All right. Now, you stated that acreage reduction production programs that have occurred in the past, which would have included the PIK Program, have been prejudiced against southern producers. Would you explain what you mean by that?

Mr. SHARP. Yes, sir. Senator Heflin, when the programs are geared for wheat, and the USDA and Congress say you cannot plant anything on this because it is in acreage reduction, that takes away soybean acreage. It impedes our using our double-cropping system. We, out of necessity, because of our low yields, which I have attested to, need double-crop where we can.

Senator HEFLIN. All right. Now, under these programs, in other words, if you take out of production for wheat, and you join a program of acreage reduction for wheat, then you are required, then, not to plant it with any type of a cash crop that you might have?

Mr. SHARP. Yes, sir, we cannot plant soybeans, which is what we would do.

Senator HEFLIN. Now, are there particular problems with such things as nematodes in the Southeast that are unusual there? I know we had testimony in the past in some hearings about cyst nematodes and other things relative to it, and there was testimony at that time by some experts that there was real danger of this cutting production by as much as 40 percent, and this had the potential in 10 to 15 years of spreading entirely throughout the United States.

I know you have been vitally interested in this type of research that has been going on. Could you give us the status of what is going on relative to that?

Mr. SHARP. First of all, Senator, let me say that with the loss of ethylene dibromide, we are at a crisis situation with the root knot and cyst nematodes in the sandy lands of the Southern States. We have a problem that is cancerous to our farming industry.

If something is not done to control—if research is not found to control the cyst nematode, then Alabama soybean farmers are going to be out of business because of this major impediment.

Auburn University, our land grant university, as you know, Senator, has one of the finest nematologists in the country, and his hands are tied, because of his limitation in funding for cyst nematode research.

If I may say so, sir, the producers board which I chair awarded him some $25,000 of farmer-funded money to enhance his research in this one impediment alone. It is a critical issue, and it is becoming even more so, because it is spreading very quickly, and they will grow in the soybean belt of the Midwest.

Senator HEFLIN. This Dr. Rodriguez Kabana, I believe, whom you are speaking about, has testified before Congress that there is a real danger that, within a matter of 10 years or more, somewhere in that neighborhood, as I remember, that it could be throughout the entire farm belt, that it is spreading in that direction. It came in from southern, warmer climates even than the South, and it moved rapidly and was moving rapidly in this regard.

You also, I know, were a member of the Soybean Advisory Research Institute that filed this report, and I congratulate you on your fine work. But in that report, you do make mention of the problems pertaining to this, as well as other types of problems—plant problems, disease problems, everything that may affect soybeans.

Mr. **Sharp**. For your information, Senator, the nematode situation is creeping into the corn system, also.

Senator **Heflin**. Thank you.

Senator **Cochran**. Senator Zorinsky asked that his statement be included in the record.[1] He had to go to a markup that is being held in the Foreign Relations Committee.

Senator Harkin.

Senator **Harkin**. Thank you, Mr. Chairman.

I do not have any questions at this time.

Senator **Cochran**. Thank you very much.

Inasmuch as we do have to clear the room and prepare for the hearing on the nomination of the Deputy Secretary of Agriculture——

Senator **Heflin**. I wonder if I might ask one thing before we adjourn.

Senator **Cochran**. Senator Heflin.

Senator **Heflin**. The Department of Agriculture, I believe, for many, many years, used a formula for the calculation of the cost of production, and about a year ago, or 18 months ago, they changed that formula and it reflected different elements than had been previously used.

We have had in a number of instances, differences between the calculations of the Department of Agriculture's figures on cost of production and land grant colleges universally, through the entire United States, calculation of cost of production on individual crops.

In soybeans, this formula that they changed indicated that—I do not remember exactly—that there was a substantially new approach toward cost of soybean production, and reduced it considerably on a per bushel basis.

I just wondered if this has been studied by the various associations and whether or not they have any thoughts relative to this, whether or not this will be used officially, relative to matters that could arise in writing the farm bill where we consider cost of production as a criterion for establishing rates in the past.

I just wondered have the various associations, the American Farm Bureau, the American Soybean Associations, inquired and looked into this, and whether or not they see any potential for good or bad relative to this.

Mr. **Asendorf**. I have not seen the last figure that they proposed, but I can see no justification for a reduction, because my chemical costs have not gone down, my real estate taxes have not gone down. Seed has gone up, the price of seed has gone up. It may come down a little this year because it tends to follow soybean prices.

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[1] See p. 520 for the prepared statement of Senator Zorinsky.

There are no input items in the production of soybeans in our area, or anyplace in the State, that would justify a reduction in input costs.

I can see no reason why that should be.

Senator HEFLIN. Thank you.

Senator COCHRAN. Because we are out of time, the hearing will stand in recess. We appreciate your testimony and your contributing to our work.

Thank you.

[Whereupon, at 10:15 a.m., the committee recessed, to reconvene at 9:30 a.m., Thursday, March 28, 1985, in room 328-A, Russell Senate Office Building.]

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

Wheat Issues

THURSDAY, MARCH 28, 1985

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:38 a.m., in room SR-328A, Russell Senate Office Building, Hon. Thad Cochran, presiding.

Present: Senators Cochran, Boschwitz, Andrews, McConnell, Zorinsky, Melcher, Heflin, and Harkin.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSSISSIPPI

Senator COCHRAN. The committee will please come to order.

Today, we continue our hearings on the 1985 farm bill. We are looking specifically this morning at the Wheat Program. Of the 335.6 million principal crop acres harvested in 1984, wheat accounted for 66.9 million, or nearly one-fifth. Wheat is the third largest field crop grown in the United States, accounting for approximately 12 percent of the total farm value of principal crops.

The Commodity Credit Corporation net outlays for the wheat support program in fiscal years 1982 through 1986 are estimated to be $14.1 billion, or about 21 percent of total net expenditures. Annual expenditures have not varied over this period of time as much as for some of the other commodity programs. The range has been from a high of $3.8 billion in fiscal year 1985 to a low of $2.1 billion in fiscal year 1986, according to USDA estimates.

The wheat industry generally has faced excess supplies in the 1980's. The primary reason has been a decline in exports in the face of a rather constant high production. U.S. production, however, has declined as a percent of total world production.

An important result is the U.S. market share in world trade has declined. The U.S. share of total world trade is now below 40 percent, from its high of 48 percent in 1981 and 1982.

We are happy this morning to have our erstwhile influential Senator from North Dakota here to introduce our first witness, who is Henry Neshem, president of the National Association of Wheat Growers, from Berthold, ND.

Senator, we appreciate your being here to present your constituent to us.

STATEMENT OF HON. MARK ANDREWS, A U.S. SENATOR FROM NORTH DAKOTA

Senator **ANDREWS**. Thank you, Mr. Chairman. It is a privilege and an honor for me to present Hank Neshem to the committee. Before I do, let me explain to those wheat growers here that as is often the case in the Senate, Senator Cochran and I are both members of this committee. We are also both members of the Subcommittee on Transportation, and I have to absent myself in a moment or two to go over and chair a hearing of the subcommittee on transportation concerning the ICC.

Among the many interests of wheat growers is the transportation for the grain—wheat growers, rice growers, and all of the rest share a transportation interest. So, while Senator Cochran is conducting this hearing, I will be conducting the transportation hearing that he would be at if he were not conducting this, at 11:15 I will be back here conducting this one while he has to play musical chairs and go on to yet another committee. That is the way it sometimes works here.

But we are both intensely interested in this subject, as are the other members of this committee. It is a privilege this morning, having made that explanation, Mr. Chairman, to introduce to you Hank Neshem.

Hank has been a long-time friend of mine. He is one of North Dakota's very competent farmers. He is president, as has been said, of the National Association of Wheat Growers. He is from Berthold, which is out west in our State.

He also has a great deal of experience across the entire mid-section of our country because he is a custom combine operator, and has been a darned good one. He has been with farmers in a number of different States out in their fields, fighting the storms that can come and worrying about short straw and poor yields.

I think he is an outstanding spokesman for the National Association of Wheat Growers. I have been privileged to meet with his group on a number of occasions and he is a regular caller in my office. The information he shares with us has been extremely beneficial. I am sure that the message he will give our committee today, Mr. Chairman, will be very helpful.

So it is a privilege and an honor for me to introduce my friend and neighbor—not quite my neighbor; he is a couple hundred miles away, or so—a little more than 200 miles away from where we raise our wheat near Mapleton.

But it is a privilege to have you here today, Hank. Welcome to the committee.

Senator **COCHRAN**. Mr. Neshem, you may proceed. We are glad you are here.

STATEMENT OF HENRY NESHEM, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, BERTHOLD, ND, ACCOMPANIED BY CARL SCHWENSEN, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. **Neshem**. Thank you, Mr. Chairman and members of this committee.[1] I appreciate those kind words that my Senator has said about me. The disadvantage I have is I am 200 miles away from the area that you farm in and we do have more handicaps out there. It does not rain as often.

Senator **Andrews**. Sometimes that's true.

Mr. **Neshem**. I am happy to have the opportunity to appear on this legislation to replace the Agriculture and Food Act of 1981. I am Henry Neshem, a farmer from Berthold, ND, and president of the National Association of Wheat Growers. Accompanying me today is Carl Schwensen from our National Association of Wheat Growers office here; he is our executive vice president.

U.S. farmers are currently experiencing the most prolonged economic decline since the 1930's. Land values continue to plummet, reducing net worth and farmers' ability to finance their operations in the face of declining prices and shrinking markets.

The wheat sector of the farm economy has become export-dependent, but exports have declined in both value and volume since 1981, and the prices at the farm gate are the lowest in the last 6 years.

The problem, as we see it, is that the world trading environment has changed and too few people recognize it. The situation is clearly not like in the 1970's when world demand for grain was expanding and a weak dollar promoted the sale of our commodities abroad. Now, the reverse is true and we see the demand for U.S. commodities stagnating as the relative strength of our dollar prices our commodities out of foreign markets and promotes imports of competitive products into the United States.

Farmers are being told that the solution to these problems lies in more market-oriented farm programs, a term that has now become a code word for lower farm prices. What we need more than anything are profit-oriented programs and policies which will open up new trading opportunities instead of sealing them off with damaging economic and foreign policies.

Mr. Chairman, we are convinced that strong commodity programs are essential to maintaining our agricultural sector, and we believe further that this approach will prove to be far more cost effective than the alternative of dealing with bankrupt farms, banks, rural businesses, equipment manufacturers, and others in supply industries, not to mention the reduction in jobs and the dislocation of resources that would be part of such a policy course.

Simply stated, we believe that a strong wheat program will result in the avoidance of greater economic costs on the part of the Government.

Let me outline the major provisions of the farm program that the members of the National Association of Wheat Growers adopted in January.

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[1] See p. 533 for the prepared statement of Mr. Neshem.

Target prices should be maintained at the current $4.38 per bushel or increased at the Secretary's discretion; continuation of a nonrecourse national loan at $3.30 per bushel with a variable repayment rate based upon the average State price received by farmers for their crops; require a 20-percent set-aside if carryover exceeds 700 million bushels in any 1 year; implement a long-term conservation reserve; establish farm bases on the amount of land normally planted or considered planted and provide Government assistance during the periods of declining world market share.

Importantly, this proposal would maintain farm income by continuing the target price program at a statutory minimum of $4.38 per bushel. The Marketing Loan Program will not adversely affect farm income, but it will increase U.S. competitiveness.

This program allows market forces to dictate the price of grain. Since fewer bushels will be forfeited to the Government or placed in reserve, the program's cost will be lower. U.S. farm products will become more competitive in the international market and the loan will not act as an umbrella for world market prices.

Under the program, a farmer would have the option to repay his loan at the average market price in his State which could be quoted twice a month. An example may help in understanding this feature.

Say that after a farm obtains a $3.30 per bushel loan, the State average price later drops to $3.20 per bushel. He could then redeem the loan at $3.20 and market his wheat and his total income would not be changed. Or a grower could select to settle his loan for $3.20 and hold his grain for a better marketing opportunity. In each example, the bushel would move into the market and not into the hands of the Commodity Credit Corporation, where the higher costs of loan forfeiture, lost interest, and storage would be incurred.

This loan program unties our price support from the world market. It means that the price floor which competing exporting nations have used for market protection essentially will be removed.

Now, a further word about exports. In response to a strong dollar and the financial problems faced by many developing countries, NAWG, and U.S. Wheat Associates, the growers' market development arm, worked on improving existing export assistance programs.

What developed is a set of programs designed and tailored to meet the needs of countries where there is a potential to increase U.S. wheat exports. The additional export effort could add 180 million bushels to U.S. wheat exports annually and reduce the estimated wheat surplus by 36 percent within 5 years.

These additional wheat exports would come at a cost of about $90 million each year. At the same time, $540 million would be saved in Government supply management costs, for a net savings in Government expenditures of $450 million annually.

Evidence demonstrates that such a sustained U.S. export effort could force reductions in competitors' wheat production and exports.

While 20 countries have been thoroughly examined under the study by NAWG and U.S. Wheat Associates, certainly others would benefit through the same program of designing our export programs to meet the specific needs of our customers. Still more could be accomplished through policy changes such as those proposed in the Helms bill which authorizes an export PIK Program, establishes a Food for Progress initiative for developing countries, modifies Public Law 480 sales programs, and provides exemption from U.S. vessel requirements on certain export programs. These and other innovative programs are vitally needed to cope with the forces we face in international markets.

Mr. Chairman, we feel that these three recommendations respond to changing macroeconomic and international market conditions, while placing ourselves in a position to benefit from increased trade when economic conditions in the world improve.

We have been pleased to participate in today's hearings and we look forward to working with your committee to ensure the enactment of sound agricultural policy for the future. I want to thank you for the opportunity to present the views of NAWG and I will be happy to respond to any questions at the appropriate time.

Senator **Cochran**. Thank you very much, Mr. Neshem. We appreciate your testimony and your excellent statement on behalf of the National Association of Wheat Growers.

Let me say that Senator Alan Dixon from Illinois was here earlier and had to leave because of an Armed Services Committee meeting that he was obligated to attend. He left a statement for the record and it will be included in the record.[1]

As much as we have other Senators who have come into the hearing room since you were introduced, Mr. Neshem, I am going to recognize them in the order they entered to see if they have any opening statements to be entered in the record.

Senator Zorinsky.

Senator **Zorinsky**. Yes, Mr. Chairman, good morning. I do have an opening statement to be placed in the record.

Senator **Cochran**. It will be included in the record.[2] Thank you.

Senator **Zorinsky**. Mr. Neshem, what are your views concerning a mandatory program.

Mr. **Neshem**. Well, I think that the national association's views are that we would be hesitant to go into it, but we would certainly consider it.

Senator **Zorinsky**. I do know that there are differences among State associations. The Nebraska association supports it. Quite evidently, every time we have tried to reduce surpluses through managing production, set-aside programs have not worked.

I have heard a lot of this at farm meetings. The words "mandated program" have been used more and more, not just by me, but from farmers.

What would your views be on a two-tiered program, which would establish a domestic price tier isolated from the international marketplace? Obviously, the current philosophy is to produce inexpensive commodities so we can compete in the world marketplace.

The problem is that we have produced commodities below the cost of production. It's hard to stay in business doing that.

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[1] See p. 533 for the prepared statement of Senator Dixon.
[2] See p. 532 for the prepared statement of Senator Zorinsky.

Mr. NESHEM. I guess I will answer your first question on acreage controls. It concerns me that when we do reduce acreage of plantings, it seems that the rest of the world picks up those extra acres that we set aside. So, in essence, we have not reduced the total world acres of planted grain.

But we at the national level of wheat growers feel that we should lock in a base acreage so that the acreage of wheat does not continue to rise each year on each farm. I do have a farm—in fact, two farms, and on one of my farms I have more acres that I can plant than I have ground to plant it on, which really does not make sense.

These are the problems we have had, and that is why I think our acres—like you mentioned, the corners are being planted in on irrigation, and irrigated pivots to wheat. It is something that we should realize; we should not let this acreage continue to grow.

But I am a little bit on the pessimistic side to say that we should reduce acres, too, because I think that if we handle the situation properly and get in the real world and realize that we have got to trade in this world with everybody and not put up roadblocks such as, well, the textile agreement—we have lost sales there. United States wheat sales to China have gone from about 60 percent of their imports to maybe 3 or 4 percent now.

In our wheat grower organizations, we have helped develop these foreign markets around the world in many, many countries, and there is more to develop out there. But we get the development going; we get a flour mill established; we get baking schools, baking factories. Then the rest of the world winds up servicing the facilities that we developed, and I just think it is terrible.

We spend wheat grower money—I mean, actual wheat grower checkoff moneys beginning these things, and then we are barred from having the opportunity to export into those markets. This is one of my big concerns.

Senator ZORINSKY. In a meeting yesterday, I was the only one to vote against $190 million for establishment of a bank that would develop agriculture in sub-Saharan Africa, because I think we have plenty of competitors out there.

I could not get $175 million for the farmers of America 3 weeks ago for an emergency credit crisis, and for us to put $190 million in somebody else's bank to help somebody develop their agriculture is a little inconsistent.

Mr. NESHEM. What we really want in regard to your two-tiered price system—what we really need and have got to have is we have to have a profit in agriculture. You know, we have got to design a way to have it because if agriculture fails, it is going to be a domino effect.

We are going to lose our inland transportation facilities because they have nothing to haul. We have lost implement companies—I mean, major ones.

Senator ZORINSKY. I wanted you to be aware that we are preparing a farm bill which does have a two-tier price system and does not abdicate the world marketplace to our competitors.

What it does is transfer a portion of the American Government's expenditure of tax dollars into the international marketplace. If it takes long-term credit, we give long-term credit. If it takes rebates and discounts, you give those until your competitor decides that maybe our pockets are deeper than his and we ought to both quit doing that.

Right now, our farmers are trying to compete with the treasuries of other countries, not with the farmers of other countries.

Mr. **NESHEM**. The National Wheat Growers' interests are that we will work for what we think is the best program and we will be flexible to do what we think will do rural America the most good, and also consider the consumers' aspect.

Senator **ZORINSKY**. Thank you very much. Thank you, Mr. Chairman.

Senator **COCHRAN**. Thank you, Senator.

Senator Melcher.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator **MELCHER**. Mr. Chairman, I have no prepared statement, but I would like to make a few remarks. Perhaps we have to go to the verge of a disaster that affects the entire country before we have the strength and the necessary votes in Congress to override some of the shortcomings in our trade policy that have developed during the past generations.

We are at a disaster time, I believe, in terms of agricultural producers in this country actually going out of business from disastrously low prices and no net income. For many of them their situation in terms of credit and actual debt-to-asset ratios is so perilous as to force them out of business. This at least attracts public attention to the needs of agriculture.

I do not welcome the circumstances we are in now, but surely it has contributed to the public understanding that agriculture is very vital to the country and that agriculture must be helped.

In terms of helping, I believe that trade policy is one of the areas that has been neglected. It may even be the most significant area that has been neglected in terms of agricultural producers.

I hope that we have the strength here in this committee and the votes on the Senate floor, as well as in the House, to successfully pass farm legislation this year tailored to meet the conditions as they exist now in the world. U.S. agriculture can become again a truly vibrant and successful story for American agricultural producers and for the economy of the United States.

Reciprocal trade is absolutely essential. Those types of agreements, whether they are made for full cash value of the commodity or for reduced prices, along with and the interplay of donations for hungry and needy countries, such as through Public Law 480 and section 416 of the present law, must come into play and must be part of the farm bill that we adopt this year.

The National Association of Wheat Growers—in my State it is the Montana Grain Growers—do play a very vital role in developing trade. There are other parts to that such as U.S. Wheat & Harvest States and other cooperatives.

Are you a member of a cooperative?

Mr. **NESHEM**. Yes.

Senator **MELCHER**. You are?

Mr. **Neshem**. Yes.

Senator **Melcher**. Cooperatives play an extremely vital role, too, in developing the necessary avenues of trade.

Were you at the National Association of Wheat Growers Convention in Honolulu?

Mr. **Neshem**. I sure was. That is where I became president.

Senator **Melcher**. Good! I think you had two Philippine speakers, two Filipinos.

Mr. **Neshem**. We had about 20 of our buyers from the Pacific rim area there.

Senator **Melcher**. I want to refer to two Filipinos specificially. First: Tonchanko, the food minister, and second, Maramba, the head of the millers in the Philippines, The situation in the Philippines, as I understand it—and I just returned from a week's stay in the Philippines in February—is that they never buy any wheat, except American wheat.

Mr. **Neshem**. That is right.

Senator **Melcher**. They have not since Tonchanko became food minister. Their situation right now is one that can be handled only by meeting their economic situation, which is very desperate. It needs selling for a reduced price, or a combination of donation, reduced price and long-term credits. Is that the way you gather it?

Mr. **Neshem**. Yes.

Senator **Melcher**. That situation, I think, could easily be met. Reciprocal trade agreements with them are automatic, since they do not buy wheat from anybody else other than the United States. They sell us sugar; we sell them wheat.

I am not saying that we cannot produce all the sugar we need in the United States, but the facts are that we produce only about half of what we consume in the United States and we import the rest. So we continue importing sugar from the Philippines.

I mention that in contrast to Mexico. I dare say that you had no speakers from Mexico, or did you?

Mr. **Neshem**. I do not believe so, no. I guess we did not.

Senator **Melcher**. I find Mexico to be an entirely different situation. I think most of the wheat that we sell to Mexico is through GSM-102, practically all of it. But whatever it takes, they feel entirely different than the Philippines.

Certainly, Mexico is a country where reciprocal trade agreements would be easy to arrive at and would be very effective. Would it be advantageous for what producers if we knew that there would be a gradually expanding market and we knew what they were going to take each year for the next 2, 3, 4, or 5 years?

Mr. **Neshem**. I think it is sad whenever we do not capitalize on any opportunity in market development in the world, really.

Senator **Melcher**. Do you have confidence that that is a method of increasing the value of wheat in the United States?

Mr. **Neshem**. Well, they are so close and we do have a railroad track, I guess, running right into Mexico, and it would certainly seem logical that we should be able to supply wheat into Mexico cheaper than they could bring it in from another country.

It is sad if we do not capitalize on an opportunity; at least be out there dealing and be sure that we are in there. I think a lot of times we think that because we are the United States, we forget that we have got to be exposed out there and be in the line of trade.

We kind of sit back, I believe, and just wait for people to come and say, "hey, are you interested in selling us a product?" I think I found that sentiment throughout my conversations with different agencies.

Senator MELCHER. Yes, I am sure with agencies right here in Washington. I agree with you and I agree with your comments. But I do want to have on the record your opinion on whether or not that is likely to lead to improving prices for producers. Is it?

Mr. NESHEM. Certainly, I agree, on any market we can reach.

Senator MELCHER. Thank you very much.

Senator COCHRAN. Senator Heflin.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator HEFLIN. Mr. Chairman, I appreciate the opportunity to make a brief opening statement. Particularly in the Southeastern States, and perhaps throughout the South, there has developed in a matter of 5 or 6 years the concept of doublecropping, where winter wheat is grown, followed then by a second crop, usually soybeans.

As we pursue wheat legislation and any acreage reduction, I think it is important that this concept of farming be recognized. There should not be discriminatory practices in acreage reduction programs toward the second crop in the event that a voluntary participation or mandatory were to be adopted pertaining to wheat in the future.

I think there are several issues in regard to the relationship of wheat in the world that we ought to direct and have certainly some inquiries about. I was rather astounded at the testimony of the Secretary of Agriculture that pointed out that in 1981 and 1982, America at that time had 48 percent of the world wheat market, and that was, of course, after the embargo and after we had entered into a trade agreement for the purchase of wheat and other grains with Russia.

Yet, in 1984, in a matter of a little over 2 years, the world wheat market percentage for America had dropped to 36 percent, a 12-percent reduction. To me, this is alarming, astounding, that we have lost 12 percent. Perhaps the value of the dollar is one of the reasons, but perhaps there are other reasons.

Maybe it is a failure to exercise an intensified or even keep up with the export promotion efforts that we have done in the past. But that was alarming to me. There are other areas I think we ought to direct our attention to, one being the farmer-owned reserve.

Another one, particularly in wheat, is this past year you had a modified, small PIK Program. I would like to inquire as to how it has worked, whether it has any potential in the future, as separate from the PIK Program that we knew in 1983.

These are matters, I think, as well as many other matters, that I hope we can direct our attention to as we deal with farm policy on wheat and a Goverment program pertaining to wheat and its relationship to other commodities.

First, I would like to invite the National Association of Wheat Growers to give us their thoughts in writing at a later time on what import the proposed tax simplification bills might have on wheat growers generally.

They may be in different categories—large, small, or some other type of breakdown. I have tried to extend that invitation to all. I think it can materially affect farm policy as we look at it from a long-range basis.

Let me ask you this: What are your thoughts on how this PIK Program—not the 1983, but this last year—how has it worked? What has been the reaction pertaining to that?

Mr. NESHEM. Well, from my own personal observation, I do not think it was very well used. It just was something that farmers did not feel was a good tool.

Senator HEFLIN. They did not feel what?

Mr. NESHEM. They did not feel that it was a tool that was beneficial to them.

Senator HEFLIN. So that you do not think there was any incentive on the basis of having that PIK Program for the reduction in target prices. There was a bad trade-off from a wheat farmer's viewpoint?

Mr. NESHEM. Well, that is the way we look at it. It was not anything that was that exciting.

Senator HEFLIN. Can a small PIK Program, do you think, be operated in a manner that it can be helpful to reduce surplus, to help wheat farmers, if it is properly carried out?

Mr. NESHEM. I think you said the right phrase there, "properly carried out." Yes, it could be beneficial.

Senator HEFLIN. Well, now, what suggestions would you give as to how it ought to be carried out?

Mr. NESHEM. Well, I guess I will relate to some of our blended credit sales that were available. They were not used by purchasers because of the strength of our dollar and our interest rates. Looking at the payback, why use a credit program that is going to cost you so much? You had better not use it, and that is why we have lost sales, because basically our dollar is just killing us.

I do not know if you would call it high or strong. Whichever way, I guess it is kind of like blood pressure. If you call it high, it is dangerous. You do not know when you are going to have the heart attack.

Senator ZORINSKY. Would the Senator yield for a question?

Senator HEFLIN. Yes.

Senator ZORINSKY. Mr. Neshem, how low would the price of a bushel have to go in order to overcome the high dollar that we have on the international markets?

Mr. NESHEM. I think I will refer that to one of my staff people here.

He says about $2.

Senator ZORINSKY. Can that be produced profitably?

Mr. NESHEM. No way, not unless everything else comes down equally.

Senator ZORINSKY. So what do you feel the solution is in the international marketplace?

Mr. Neshem. Well, the solution that would certainly help is get the dollar in line. I mean, I think we are going to have problems writing any farm program unless we do something about this dollar situation.

Senator Zorinsky. How about interest rates? Are they going to have an effect?

Mr. Neshem. Well, they should change with the dollar, I would think. I am not a world financier, so it is a subject that I am not too versed on. But in my own business I know that the dollar is wrong and our interest rates are certainly wrong, and our inflation rate——

Senator Zorinsky. Do you think we have more competitors?

Mr. Neshem. Oh, definitely. But I think our inflation rate is too low.

Senator Zorinsky. Do you think they can produce at a lower cost than we can?

Mr. Neshem. No, I do not think so. I think some are being Government-subsidized, so they do.

Senator Zorinsky. With our money?

Mr. Neshem. Yes.

Senator Zorinsky. Thank you.

Mr. Neshem. Thank you.

Senator Heflin. That is all right. That is all I had.

Senator Cochran. Senator Harkin.

Senator Harkin. I do not have any questions, Mr. Chairman.

Senator Cochran. Mr. Neshem, you mention the trade program and the fact that we have spent money—through the Foreign Agricultural Service Cooperator Program, for example—to develop trade opportunities overseas.

I recall looking into the work we were doing in China and other areas. I led a delegation of Senators to China about 3 years ago and they were just completing a flour mill at that time. They also had other activities going on there that we were supporting through that Cooperator Program.

If, as you tell me now, we have lost such a big share of that trade, would you say that we have wasted that money? Would we be well-advised not to embark on that kind of project in the future? What is your advice to us?

Mr. Neshem. Well, having had the opportunity to be in China, in Peking and Shanghai, about 2 years ago, I was invited as one of a group of 14 to be a guest of their Government. In 1978, I had some of these same people at our farm in North Dakota as guests through the Continental Grain Co.

So I did have the opportunity of meeting one of them over there this time over, and they told us right out that they want to be modernized and, I would say, Westernized. I do not think that we are wasting our money. I think we are very foolish that we do not get aggressive and take care of our market opportunity.

They told us right out that, hey, look, we want to do business with you and buy your wheat, but, you know, traffic runs both ways; you have got to buy something from us or we will run out of money. And we do not want to do that; that is what bothers me is the fact that we have the opportunity, and then because of political purposes, or whatever—I do not know—we screw up, so to speak. Pardon my French.

Senator **Cochran**. That is all right.

I found your proposal with respect to the pricing of our wheat through a farm program interesting. I wonder whether or not you have had an opportunity, or the Wheat Growers have had an opportunity, to look at a proposal that is referred to as a Marketing Loan Program.

In this proposal, farmers would be able to receive a nonrecourse loan just as in price support programs, but repayment would be at the lower of either the loan or the world price. The objective would be to make our products more competitive in trade, both domestic and international.

It would be designed to neutralize subsidies and allow for overvaluation of the U.S. dollar in international trade. It would eliminate benefits that accrue to producers who remain outside the Federal programs to avoid acreage reduction requirements, thereby making supply management efforts on the part of the Federal Government more effective.

Is this a proposal that could be an acceptable alternative for new farm legislation?

Mr. **Neshem**. I think we can work around some of those things. I think there are places we want some modification. What we are concerned about is a profit for agriculture because they cannot continue to live like they did in past years on their depreciation.

The depreciation of their equipment now has been devaluated so far and land values have reduced to that extent that a farmer a year ago that was very solvent today has no equity. We have got to protect that if we want to be considered an exporting Nation. We do not have anything else that we can export anymore unless you go to agricultural products. The industries of manufacturing are not competitive.

Senator **Cochran**. Well, I appreciate your being here, and I think your contribution has been very important this morning.

Senator Zorinsky, do you have other questions?

Senator **Zorinsky**. Yes.

Mr. Neshem, do you support the market-clearing philosophy of the current proposal that has been presented by the administration?

Mr. **Neshem**. We have to have income protection; in other words, a target price. If they are going to reduce the payment limitations down to what they are talking about, $20,000 or less, you have not got anybody in the program. They are just going to go out there; they are going to have to plant wheat and go broke.

Senator **Zorinsky**. Then I can assume you are leaning against that program?

Mr. **Neshem**. Yes. We cannot work that way. We have got to have a profit.

Senator **Zorinsky**. Thank you very much.

Senator **Cochran**. Senator Melcher, any further questions of the witness?

Senator **Melcher**. No.

Senator **Cochran**. Senator Heflin.

Senator **Heflin**. No.

Senator Cochran. Senator Harkin.

Senator Harkin. No.

Senator Cochran. Thanks very much for being here.

Mr. Neshem. Thank you very much. I appreciate this opportunity.

Senator Cochran. Our next witness is Doyle Rahjes, president of the Kansas Farm Bureau, Manhattan, KS. He is representing the American Farm Bureau Federation.

You may take this seat right here in front of that microphone.

We have a copy of the statement which you have provided to the committee. We will include it in the record in its entirety, and ask you to make whatever summary comments or abbreviation from that written statement that you would like to make at this point. You may proceed, Mr. Rahjes.[1]

STATEMENT OF DOYLE D. RAHJES, PRESIDENT, KANSAS FARM BUREAU, MANHATTAN, KS, REPRESENTING THE AMERICAN FARM BUREAU FEDERATION

Mr. Rahjes. Thank you, Mr. Chairman and members of the committee. I appreciate the opportunity to appear before you regarding the Farm Bureau's position on programs for wheat and our proposals for legislative changes under the 1985 farm bill.

I might say that I am a farmer; I do farm wheat and recognize first hand some of the problems we face as wheat producers in this country. I would like to say at the onset that the policy that would best offer parity to U.S. agriculture would be a commitment to fiscal responsibility and a reduction in overall spending to get interest rates down, currency exchange rates in line with our exports, and get our exports back into the world marketplace.

I would, Mr. Chairman, as far as my testimony, highlight it and I will make reference only to the fact that included in this testimony will be some of the points on the first page which we support in a farm bill, which are nine points, and then I would like to begin to highlight the rest of the testimony.

Wheat producers have certainly undergone some extremely difficult marketing conditions in the recent years, coupled with high interest rates, an unexpectedly strong dollar, and increased competition, and some of it heavily subsidized, which has given us some extremely difficult problems to overcome.

Production has continued to be pretty much consistent from the 2.4- to 2.8-billion bushel range, and that includes several of the largest crops on record. The Payment-in-Kind Program did not dramatically reduce wheat production as we had expected that it might. Ending stocks continue to plague us and they continue to be over the 1 billion bushel mark, and we are now approaching a very high level once again of overstocks.

Our foreign policy must adjust to the existing markets and to offer an opportunity for improved conditions, while effecting a transition to a market responsive agriculture system.

Politically determined support levels in large measure have been responsible for the massive carryover which plagues the wheat market at the present time. As we propose a farm bill which is market responsive and fiscally responsible, we believe that there are some signals that producers have to receive when making production decisions which will be founded on market reality and not on political expediency.

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[1] See p. 535 for the prepared statement of Mr. Rahjes.

With that, I would like to point up some specifics in our proposal, and the first would be loan rates. We feel that they need to be tied to a 3- to 5-year average of market prices for wheat, feed grains, rice, and soybeans.

We would suggest that the loan rate should be at 75 percent of a 5-year average of domestic prices, excluding the high- and the low-valued years. We propose that the rate be adjusted by no more than 10 percent in any one year.

The loan rate in this manner will signal to our international competition that we will not provide them with long-term price protection. Instead, we will send a signal to the world that we will compete with them in a wider range of prices. This, of course, should make their domestic programs much more costly and reduce their incentive to continue heavy subsidization of their programs.

In the area of target prices, we feel very strongly that this is an area that we need to continue. We recommend freezing target prices in 1986 at the 1985 levels. In 1987 and thereafter, target prices would be set at 110 percent of the 5-year average that is used to determine the loan rate, with limited adjustments to only 5 percent in any one year.

We also support the $50,000 payment limitation that would apply to the deficiency payments only. I want to emphasize that the $50,000 payment limitation would apply only to the deficiency payment.

This target price system would allow producers time to adjust to a more market-responsive farm program. Necessary adjustments could occur gradually while attempts to expand exports and to address the issues of the international market access and subsidy—those problems and practices can be confronted, and they should be confronted, and they must be to open the doors into the international marketplace.

Export expansion is a very prime part of our program. We feel that there has to be great emphasis placed on the need for a strong trade title in the 1985 farm bill. We believe that CCC export credits and the Public Law 480 or Food for Peace Program is a very important part, and I believe that a much stronger Public Law 480 program is currently justified in light of the African famine and other situations that we find throughout the world.

Regarding the CCC export credits, we feel that it is regrettable that the CCC credit revolving fund was not funded previously. The Blended Credit Program, which unfortunately recently has been saddled with the cargo preference rule—we feel that we have to have an exemption to this rule and we should pursue that as hard as possible to alleviate this problem.

In fact, all agricultural exports should be exempted from the cargo preference rules. The Farm Bureau will strongly support legislation to exempt agricultural commodities and products from the cargo preference rules.

There may be some barter opportunities, and should some occur, which they have from time to time, which I will not dwell on, we should seek any way that we possibly could to gain exports where such possibilities exist.

Regarding trade negotiations, we must give our trade negotiators the tools that they need. It seems as though there are many unfair trade practices that exist today. The free market seems to have faded away to the point that it probably does not exist.

Export subsidies, and many of those which we have not had the opportunity to use in the past—we are going to have to figure out a way—and we are suggesting that we support what we might call a bonus export program. A bonus tonnage of farm commodities should be made available from Commodity Credit-owned sources and be used to offset the advantages of competing countries which subsidize their exports.

Acreage reduction programs—we believe that, for wheat, we would recommend that the Secretary be required to call for an acreage reduction program when carryover is projected to exceed 4 percent of annual world utilization.

The acreage reduction program needs to be, and should be, large enough to assure a reduction in carryover supplies. Increased efforts to expand foreign markets could result in acreage reduction programs only to correct temporary imbalances, not as an annual program.

We believe that the farmer-held Grain Reserve Program should be eliminated. Elimination of the farmer-held Grain Reserve Program would eliminate the idea that we can store ourselves to prosperity. Also, it has proved in the past to be detrimental in many cases—have detrimental influences on the livestock markets.

Without the reserves, we would never have accumulated the excessive stocks that gave the need for the expensive PIK Program that we have seen 2 years ago.

In conservation, we are concerned that farm programs have provided incentives to plow up fragile lands, and we certainly would want to indicate that we believe that any artificially stimulating program that would entice producers to bring fragile lands under cultivation should be eliminated.

We would further say that any producer who brings such land under cultivation should be ineligible for Federal incentive payments. We also believe that the Conservation Reserve Program should be developed and contracts of 7 to 15 years under which erosion-prone cropland would be converted to less intensive uses, such as pasture, grass, legumes, and nonbearing tree crops, should be implemented.

Again, let me say that we feel very strongly that the Export Bonus Program should be addressed. We are going to have to get tough in the marketplace. We must regain those markets that we have lost, and we must have some incentive to move toward and get new markets in place that we have not been able to get.

Of course, in my conclusion, Mr. Chairman, we believe, once again, that fiscal policy is the root of many of our problems—in fact, all of our problems. The commitment to fiscal responsibility will help us in the area of our input costs, will help us in the area of export markets, will help us in the area of lower interest rates. These should be pursued.

Our proposal will benefit the wheat industry. It provides the opportunity for profit to all of agriculture. It outlines a way in which we could move toward market orientation, and provides continued assistance in the form of target prices to expand export markets.

We believe only in this way can we return agriculture to a healthy and balanced condition. I want to thank you again for the opportunity to appear before this committee. I would be happy to respond to any questions.

Senator COCHRAN. Thank you, Mr. Rahjes, for your presentation. I wonder whether or not the Farm Bureau Federation has had an opportunity to make an estimate of the annual cost of the program that you propose that we consider today.

Mr. RAHJES. We do not have the figures on the wheat section. The overall program that we are proposing—we do have some figures on that.

Senator COCHRAN. What is that? I have forgotten. I know Mr. Delano testified at our opening hearing on behalf of the federation. I have forgotten if he did indicate at that time what the cost of the Farm Bureau's proposal would be on an annual basis.

Mr. RAHJES. As we look forward to limiting it to what seems to be politically expedient for the 4-year program, we are looking at the projection of $27.1 billion for the whole program.

Senator COCHRAN. This is over a 4-year period, then?

Mr. RAHJES. Right.

Senator COCHRAN. $27.1 billion?

Mr. RAHJES. That is correct. The costs in the first year would be greater than the costs in the years following because if these conditions are met and we do see a reduction in the dollar and we begin to move into export markets, we begin to see a lesser cost in the area of the supplemental income, and also a reduction in the cost of carrying of stocks, which is a very, very important area of reduction in costs in our program.

Senator COCHRAN. I do not know whether your federation has had an opportunity to look at this proposal that I have referred to as the marketing loan program, but I would like for you to, if you can get back with your staff and give me a reaction to that proposal.

It would involve a nonrecourse CCC loan, just as we have available in the current price support program, but repayment would be at the lower of either the loan or world price. The objective would be to make our farm products more competitive in domestic and international markets, trying to neutralize subsidies and allow for the overvaluation of the U.S. dollar.

It would also eliminate benefits that accrue to those producers who remain outside the Federal programs to avoid acreage reduction requirements, thereby making supply management efforts more effective.

Do you have any reaction to this kind of program at this time?

Mr. RAHJES. Mr. Chairman, certainly, we are open to all of these. We are looking at them and we realize fully that anything that is good for agriculture, we want to certainly be in favor of.

I would not react specifically to those areas that you have asked because I do not know them that well. I would only say that as it helps in the export marketplace, we feel so strongly that we have to get into this area, and anything that would enhance that, we are certainly willing to take a look at. If it is expedient, I am sure that you could count on us for support in that area.

Senator COCHRAN. Thank you very much.

Senator Zorinsky.

Senator ZORINSKY. Mr. Rahjes, your prepared statement indicates that the Farm Bureau supports a wheat loan rate tied to a 3- to 5-year average of market price. What do you estimate the 1986 wheat price support loan rate would be under your proposal?

Mr. RAHJES. Of course, the loan rate, as we have seen the last 5 years—and I do not have those specifically, but it would be something below $3.

Senator ZORINSKY. Around $2.75?

Mr. RAHJES. Probably a little higher than that.

Senator ZORINSKY. $2.80?

Mr. RAHJES. A little bit below $3. If I may continue for an instant on that——

Senator ZORINSKY. Surely.

Mr. RAHJES. We are looking at that, of course, and using the target loan price in the deficiency payment to carry us as the supplemental income to move us from this point. We certainly do not intend in any manner to saddle the producer with that as being his only source of income. We recognize that that will not work.

Senator ZORINSKY. What if, next year, wheat prices decline to the loan rate. Can a wheat grower make money producing or growing and selling at $2.80 or $2.90?

Mr. RAHJES. That is what we are saying. We have to depend upon this supplemental income from the deficiency payment. This meat ax approach which we have seen come down from the administration—we cannot go along with that. We have to have a supplemental income.

Senator ZORINSKY. There would be no deficiency payment, though, under that circumstance if the target price dropped down to at least equal to or below the loan rate.

Mr. RAHJES. Well, if that ever did occur—and I might say that we have tried to guard that in our program, in that we have indicated that we are freezing the target prices for 1986 at 1985 levels, and indicating——

Senator ZORINSKY. $4.38?

Mr. RAHJES. Right, and that we would not want them to move in our program more than 5 percent in any one year.

Senator ZORINSKY. Whatever prices we enter into, do you think they should be frozen in a multiyear farm bill or do you think we should fine-tune them after 2 years or 3 years, as we did the $4.65 down to $4.38? Do you think bankers and farmers should be able to depend on a set rate until the expiration of that program?

Mr. RAHJES. Certainly, it is a gentlemen's agreement and I would say that you and I as individuals ought to be able to do that. On the other hand, as we look at the political realities of this world and this country, and as we think about the international marketplace, certainly there are things that change from time to time.

My answer is, "Yes," I wish that we could be able to do that and I would hope that we would be able to do that, but recognize the political problems and the things that happen in this country that change so rapidly. There are some times that changes have to be made, but I would prefer not to.

Senator **Zorinsky**. You are aware that the PIK Program was not a specific, legislatively authorized program. The Secretary of Agriculture used discretionary authority to implement the entire program. It never came to this table and it never came to this committee. In fact, I read about it in the paper one morning. This year I found out that it cost too much and that we must reduce USDA's budget because of the PIK Program, even when we had really no voice in it.

That is why I am beginning to wonder—should we have a program that is fixed and predictable or do we leave it so free that farmers can utilize these Band-Aid approaches. That is what we have had over the past years; however, it doesn't allow for long-range planning.

I feel the farmer should be able to take a farm bill to his banker or to his accountant, and say, this is what my acres produce and this is what my potential income is, based on this Federal proposal. Can I support buying a new combine and making payments? What is my projected cash-flow?

He ought to be able to make some reasonable assumptions rather than be told there's been a change in the rules.

Mr. **Rahjes**. I basically agree with your philosophy entirely, but I think there are some things that I just feel that I have to open up here, looking somewhat at the history of farm programs and as we think about the farmer in his production of crops, dealing with the elements, and also then in the international marketplace.

There are some things there that just by nature are flexible; the weather, of course, is absolute. At least at this point, we have not learned how to control it, so there is a flexibility that we absolutely have nothing we can do with, except maybe through insurance and this type of thing.

Now, what I would point up to is that many of the problems that we have seen in agriculture and being able to reach out and protect are a result of our tying ourselves to Government programs.

The political realities in this country and in the international marketplace are that they will change, and if we could get a farm bill that could some way project those changes and get them into place, then probably we could have something like that which would work.

I am saying that if we are going to be able to project through my banker, I think we are going to have to move away from those type of programs which will change. When I say that, I am talking about programs which will change because of the political winds that change, because the world environment and international trade will change.

I am just not sure that we can have a farm program enacted that can take that all into consideration.

Senator **Zorinsky**. We are working on one that is going in that direction.

Mr. **Rahjes**. That is great.

Senator **Zorinsky**. I hope, you will take a look at it because it moves the Government gradually out of the business of market orientation and lets the marketplace take it over, in a gradual manner.

Not too long ago, I went to an agriculture policy meeting of the European Economic Community. For 2 hours, they could not even agree on the definition of the word "subsidy", let alone who was providing a subsidy.

I think this is what we are faced with out there. As a former businessman, you have got to go out and compete or your competitors are going to put you out of business.

We cannot send our farmers in to compete with the treasuries of foreign governments without supporting and backing them up with credit or some other means.

Mr. **Rahjes**. I think we concur with that central theme very much—in fact, probably totally. We have to compete; we have to have those tools to compete and move the roadblocks out of the way.

Senator **Zorinsky**. Thank you.

Senator **Cochran**. Senator Melcher.

Senator **Melcher**. I think Manhattan is where K State is, if I am not mistaken.

Mr. **Rahjes**. Yes, sir.

Senator **Melcher**. What I would really like to find out is why none of the Big Eight teams make it into the basketball finals.

Senator **Zorinsky**. Let us talk about football.

Senator **Melcher**. Did the Farm Bureau favor or oppose the 1983 PIK Program?

Mr. **Rahjes**. I think as we looked at it as a reduction of stocks at that particular time, it appeared to be something that might help in the long term as far as carryovers are concerned.

In fact, in the area of wheat, in that we raised a bigger crop even with the reductions that we had, it just did not provide that. I am not sure I am addressing yes or no to your question, but the reason that we supported it in concept it was toward the reduction of surpluses.

Senator **Melcher**. I opposed it in cost and in concept because I did not see how it had anything to do with common sense and providing food for those who needed it. Nor did I see how it fit in with a viewpoint that we were going to expand trade by having stable, reliable supplies.

Because it was passed by the House at a very late period of time in that particular Congress I was able to prevent the Senate from endorsing it. It became law under discretionary authority of the Secretary of Agriculture, not by an overt act of Congress.

What bothers me is that there is a lot of discretionary authority in the Secretary of Agriculture—discretion which he does not always use. In the case of PIK, he used discretionary authority, I think, partially illegally. I do not know whether it will ever be tested in court, but there is a very valid question on whether or not a $50,000 payment limitation should have applied to PIK payments.

That is somewhat a moot point since the Secretary announced that following 1983, there would be no PIK payments made without it counting against the $50,000 limitation.

I would like the Farm Bureau to take a positive approach to something in regard to the farm bill. I have a little problem wondering how you arrive at a $27 billion total cost for 4 years on these commodities and what set of figures you used.

We use the Congressional Budget Office around here sometimes, and sometimes the Office of Management and Budget, for projecting the cost of programs. Sometimes they get together and agree on what the projected costs are.

But I was led to believe by the statements made by Farm Bureau officials that what they are recommending in these commodity programs is less Treasury exposure; that is, cost. Let me point out that at $3 for the loan rate on wheat and a $4.38 target price for 1986, the Treasury exposure is increased.

Do you recognize that?

Mr. RAHJES. It is possible.

Senator MELCHER. The Treasury exposure, and therefore the projected cost—I assume this is what you projected for the cost—is the difference between the loan rate and target prices.

Mr. RAHJES. That is correct.

Senator MELCHER. That is $1.38, since the target price is at $4.38, and that is what you are recommending it be for 1986, while the loan rate is at about $3.

Mr. RAHJES. Correct.

Senator MELCHER. The current exposure is $1.08 under the target price of $4.38 and a loan rate of $3.30.

Mr. RAHJES. Correct.

Senator MELCHER. So if the current law were extended in 1986, we would have less Treasury exposure than your recommendation for wheat. I am not going to take up the other commodities because you would have to look at different figures. Would you project that for 1987 the loan rate will still be at about $3?

Mr. RAHJES. There is no doubt—well, under our proposal it cannot be less than 10 percent because we restrict it to a movement of 10 percent.

Senator MELCHER. But the reduction in target price would be restricted to 5 percent?

Mr. RAHJES. Right. We limit it to 5 on the one and 10 on the other.

Senator MELCHER. Still, you used something to get at that $27 billion. Do you use for 1987 a loan rate of $3?

Mr. RAHJES. It would depend on what the markets did.

Senator MELCHER. I know, but you had to use something to arrive at your projected cost.

Mr. RAHJES. As far as what assumptions were used precisely, those numbers—I do not have those numbers for you; but we can certainly provide this committee, and will provide the committee with those numbers that were used.

Senator MELCHER. Well, let me point out that if there were no reduction in market prices between 1986 and 1987 and you came out with a continuation of the $3 for the loan rate, then dropping the target price 5 percent, which would be 21 to 22 cents—that exposure to the Treasury for the year 1987 would be lower than it is this current year. But if target prices remained high you could project the cost being greater.

Mr. RAHJES. That could be right and if you would have a lower market price, then that certainly would be true.

Senator MELCHER. It would be even more cost, would it not?

Mr. RAHJES. If the market price went down, yes.

Senator MELCHER. That is right, especially if the loan rate would be lower.

Mr. RAHJES. Right.

Senator MELCHER. I just point this out for one reason. If the stress of the Farm Bureau's testimony and advice and recommendations for the farm bill is on fiscal restraint, I do not find it; I do not find it at all.

If we continue at the same target price and the same loan rate than for fiscal 1986 and 1987 there would be less Treasury exposure, and therefore less cost than what the Farm Bureau is recommending.

I suspect that is about what we are going to do. You recommend just freezing it for 1 year. I suspect we are probably going to freeze it for longer than 1 year. I do not know how long, but the reason for it is the argument to have less cost. That is a very big argument around here.

Mr. RAHJES. Indeed, it is.

Senator MELCHER. What farmers need to know is what can they expect of this so-called safety net for stabilization of price. I recognize that, and I also recognize the very serious situation they are in right now. They have to project a cash flow to show that they will be able to get the continued lines of credit that they need in order to stay in operation.

What I hope we do agree on and what I believe must be a very strong effort by the Farm Bureau and other farm organizations is to back solidly the trade aspects of what must be in this bill.

You go into that somewhat. I think we are probably thinking about the same thing—an aggressive trade policy.

You also go into the question of conservation, and as I now understand it the Farm Bureau's position on sodbusting is very strong. None of the programs would be available to those people who break up fragile lands.

That is a position easily understood, I think, by the public and I hope we do enact that into law this year.

One final question: Your statement says a $50,000 payment limitation should continue and only apply to deficiency payments. That, I believe, specifically exempts then, the limitation being applied to payments, if there are any, for diversion. Is that true?

Mr. RAHJES. That is correct. It would strictly limit it to deficiency payments.

Senator MELCHER. So, therefore, that is an added exposure of the Treasury, is it not?

Mr. RAHJES. Only if they provide for it.

Senator MELCHER. Only if we enact it. But if we do enact it, similar to what has been enacted by Congress over the last 20 years from time to time, in fact, almost every year, that would be further exposure?

Mr. **Rahjes**. It would. However, we have historically been against payment limitations of all kinds.

Senator **Melcher**. I understand that.

Mr. **Rahjes**. Right.

Senator **Melcher**. I understand that and I appreciate your point. I know that from the producer's standpoint, that is very much desired. It is a very valid consideration that I believe this committee should consider.

Thank you very much.

Senator **Cochran**. Senator Heflin.

Senator **Heflin**. Mr. Rahjes, I want to ask you two hypothetical questions and they are based upon assumptions. No. 1, the assumption is that the relationship of the dollar to foreign currency stays the same during the next 10 years.

No. 2—and these are 10-year assumptions—No. 2, the foreign export trade practices continue for 10 years as they presently are.

No. 3, foreign competition continues to grow, with new competitors coming in in the wheat export markets, such as China.

No. 4, American production of wheat will increase on an acreage basis because of research.

What will be the profitability of the average wheat farmer in America 10 years from now, the first question is, under the present farm policy?

Mr. **Rahjes**. Sir, you have painted a very bleak picture. If we would continue with those number of things that you have indicated, such as the dollar, competition, subsidization, it would seem to me that there would be, over the world, some chaotic conditions which would begin to occur with all the wheat production all over the country because the competitiveness, or the unreal competitiveness—it would be subsidization, the buying power.

It would seem to me that you have painted a picture, sir, that would be very difficult for the wheat producer in the United States to be able to circumvent. There is one thing for sure that would happen unless some sort of Government intervention would take place. We would not have any wheat producers in this country, except for those that would be able to in some manner, and I have no idea how at this point, be able to meet that worldwide competitiveness that would occur.

Now, the dollar would stay as strong as it is, and that is what you put in your assumption, then the only way that we could get into a world market would be with some sort of an export subsidy.

Over that many years, I am sure that, as we have indicated in our policy, we would like to have an export bonus or an export incentive to come from the reserves. I am sure with that period of time, we probably would have exhausted our reserves. We would not have that exposure to the budget, for sure, at that time by maintaining those reserves.

But what you have indicated, at least as I perceive it, would be a time in which all of these things which you have related to would become competitive in themselves, and probably would begin to fade away in some manner because I do not think those governments in the other parts of the world could continue to do the things for that period of time that you have indicated.

We are in a period of change. I do not think they could stand still that long. I think things will have to change.

Senator **Heflin**. All right. Well, now, let me ask you the second question. Assuming those same assumptions, the relationship of the dollar to other currencies stays the same; foreign trade practices continue; foreign competition continues to grow; American production is increased on an acreage basis because of research.

The question is what is the profitability of the average wheat farmer in America 10 years from now under the administration's proposed program?

Mr. **Rahjes**. I would question that we would see agriculture as we view it today to be even similar to what it is today. I do not believe that with all those conditions remaining the same, the administration's program, even though it moves strictly to the market-responsive—I really think that under our present conditions and all those things that you have stated, we would see a completely different type of agriculture in this country. As we view it today, we would not recognize it.

Senator **Heflin**. Well, I am basing these on assumptions and the assumptions may be valid that the relationship of the dollar 10 years from now—there is no real change in the foreign export trade practices, and foreign competition grows. Others may fluctuate, but that probably is going to be a fact.

The other fact is that America's production will increase on an acreage basis because of research. But, 10 years from now, there would be no program. What would be the profitability?

Mr. **Rahjes**. Well, I think for me to address this, I would say this: There will be some changes; there will have to be some changes. As we think of the subsidization of all countries, it is going to be tough bargaining. There is going to be a very competitive world out there which we are going to have to try to penetrate.

Through new methods, new technology, removing cargo preference, removing many of the roadblocks that we have that we can do in our own country to remove our own roadblocks that we have placed, we will be able to compete better than we are now.

As we think about fiscal responsibility, I think we can get interest rates down. I would hope that we do not have a dollar which is worthless. I would hope that we have a dollar which is more realistic and not inflated. Hopefully, it is a dollar which will respond well in the world marketplace.

If we can get those things adjusted, there is no doubt in my mind that production agriculture will be able to compete if all the roadblocks are removed by Government.

Senator **Heflin**. Well, would you agree that the answer to both questions, if you make those valid assumptions, is that average American wheat farms would be in chaos if those four assumptions remained?

Mr. **Rahjes**. If they continue to remain——

Senator **Heflin**. Under either program.

Mr. **Rahjes**. Well, I think so, if those things remain. We have to change those things that we can change. Our feeling related to the dollar and the subsidies that are occurring over the whole world—they are based on the fact of many of the things we have put in place ourselves in this country and some of the things that we have not responded to that other countries are doing, and some of those I just previously named.

Senator **Heflin**. Well, then, based on that and those first two assumptions, in order for the administration's program to work, there has to be a policy directed toward the relationship of the dollar to other currencies, and there has to be something done pertaining to foreign trade practices as we presently know them.

Mr. **Rahjes**. I concur with that entirely.

Senator **Heflin**. That is all.

Senator **Cochran**. Senator Boschwitz.

Senator **Boschwitz**. I am sorry that I did not hear your testimony. I am in the process of reading it and I am familiar with the plan that the Farm Bureau has proposed. I would like to ask some specific questions about what should be in the 1985 farm bill.

Loan rates—you want to use the soybean approach. However you say that, the rate will be adjusted no more than 10 percent a year. First of all, would that not send signals?

I mean, you give the world a great deal of advance notice if you say the loan rates are going to be the average of 3 out of the last 5 years—taking out the high and the low years. So the folks down in Argentina and Brazil and everywhere wheat is planted would know in advance what their planning decisions would be. Is that correct?

Mr. **Rahjes**. I am sure it could be assumed that that would be correct, yes. If I might move from there to expand on that, we believe that this would as well send a signal to these people that we are going to be in competition with them and that if they are going to continue to subsidize as they have in the past, their domestic programs are probably going to suffer. We want to reduce their incentive to produce.

Senator **Boschwitz**. You want the loan rate to respond to the market price, but not more than 10 percent in any year. The loan rate is now $3.30. Are you saying that in the first year of the farm bill, the lowest price could be $3, therefore?

Mr. **Rahjes**. That is correct.

Senator **Boschwitz**. $3 a bushel, and what do you figure the average cost of getting the bushel to the port is?

Mr. **Rahjes**. That depends on where you are.

Senator **Boschwitz**. The average in the country is about 68 cents, I believe.

Mr. **Rahjes**. I would guess it would be that, or more.

Senator **Boschwitz**. So $3.70 a metric ton; that would be, at the port, approximately $139 a metric ton. Is that going to be competitive if you only allow loan rates to drop to $3 in 1985 or 1986? We are really only talking about the 1986 crop. You are satisfied with that, nevertheless?

Mr. **Rahjes**. What we are saying in our program—and this will be a bit repetitive, but we believe very strongly that we have to have great emphasis on an export program. What we are saying is to get into the export market, we have to do better than we have done before. We have to compete with those countries.

Senator **Boschwitz**. By 10 percent, it would be better?

Mr. **Rahjes**. We propose to do it with a bonus or an incentive type program; in other words, a baker's dozen, if you please. Give them an additional tonnage.

Senator BOSCHWITZ. Out of CCC stocks?

Mr. RAHJES. Right, out of CCC stocks.

Senator BOSCHWITZ. Somewhat like we did in the sixties and early seventies when there was actually a dollar subsidy at the ports.

Also, if you lower loan rates to $3, you want to keep the target price at $4.30, I presume, and if there is a 2.4 to 2.8 billion bushel crop—let us say there is 2.6; take the middle—that is $3.4 billion. Do you think you are going to be able to get that passed, plus a subsidy at the port?

Mr. RAHJES. If we can send some signals to these countries, we can see in the matter of a year or two——

Senator BOSCHWITZ. Can we get it passed here in the Senate? You are asking for a deficiency payment of $1.30. You say a 2.4 to 2.8 billion bushel crop; 2.6 is the midpoint. A $1.30 times 2.6 is $3,380,000,000, plus you are going to give them a baker's dozen; you are going to give them another bushel at the port, so that it is a $4 billion program.

Do you think you can reasonably get that passed in the Senate?

Mr. RAHJES. If you probably narrowed it to that supplemental income that we are indicating we must have to move from where we are to a more market-responsive agriculture—if you were to limit it to that section, it might be difficult.

But what we are saying is in our total program, as we have presented it here this morning, we are moving toward an expenditure which is modestly above that which the administration has indicated.

Hopefully, the Senate would be able to look at it in its entirety and see that it is not a large budget exposure because we are saying that over a period of years, it will cost less each year.

Senator BOSCHWITZ. And you feel the Acreage Reduction Program probably will be another 30 percent?

Mr. RAHJES. For budget exposure, you mean?

Senator BOSCHWITZ. We support acreage reduction programs that are triggered when carryover supplies exceed workable levels. What do you see us going into 1986 with?

Mr. RAHJES. We are saying it should be triggered at 4 percent. At the present time in wheat, we are at something like 7.6, I believe. So it would trigger, probably—I am not sure what it would trigger at, but it would have to be enough, certainly, to bring levels down.

The 10 percent that we have seen in the past years has not been successful in reducing stocks.

Senator BOSCHWITZ. Four percent of world utilization in wheat.

Mr. RAHJES. Yes.

Senator BOSCHWITZ. What is the world utilization, and are you talking about only the wheat that moves in international trade or all wheat?

Mr. RAHJES. World utilization.

Senator BOSCHWITZ. All of it?

Mr. RAHJES. Right.

Senator BOSCHWITZ. And what is that?

[Pause.]

Senator BOSCHWITZ. Wheat production by countries: Total wheat production is 497 in 1984-85—500 million tons, roughly. Utilization is close to 100 percent, so 4 percent would be 20 million tons. Is that right?

Mr. RAHJES. That sounds—I am trying to recall a figure of 530 million metric tons, I believe, in world utilization. That is the one that I have. I am taking that from my mind.

Senator BOSCHWITZ. 20 million tons is 750 million bushels, roughly?

Mr. RAHJES. Pretty close.

Senator BOSCHWITZ. And if the carryover stocks exceed that, I see.

What do you believe the set-aside will have to be in 1986?

Mr. RAHJES. Well, I would only say if we are going to get an effective set-aside, it has to be more than 10 percent because, effectively, a 10-percent set-aside has never worked to reduce production.

I am sorry; I would hesitate to make a projection at this point.

Senator BOSCHWITZ. I would submit that I am afraid the loan rate going from $3.30 to $2.97 is not going to be enough. I am so very aware that we have just lost an enormous amount of wheat on the world market because the Argentines are selling it for $108 to $110 a ton. Of course, they are in the midst of their harvest of other crops.

But we would still be a long way off, I am afraid. A baker's dozen may not be good enough.

Mr. RAHJES. It may take more than that.

Senator BOSCHWITZ. It may have to be a baker's dozen, plus three.

Mr. RAHJES. Whatever it takes, we have got to get tough in the world market; we recognize that. Part of the budget exposure there could be a vast reduction of our reserves down to what we need in food protection for this country. That is an area that we need to look to as a reduction of the budget exposure, which is a tremendous budget exposure.

Senator BOSCHWITZ. Yes, I quite agree, between storage and interest.

Thank you very much.

Senator COCHRAN. Senator McConnell?

Senator MCCONNELL. Thank you, Mr. Chairman. I have an opening statement here which I would ask unanimous consent to be included in the record.

Senator COCHRAN. Without objection, it is so ordered.[1]

Senator MCCONNELL. I am sorry that I missed your testimony, but I have a couple questions, if I may, that I would like to propound to you.

As a wheat grower yourself, I was wondering why the position of the American Farm Bureau with respect to wheat is so different from that of the National Association of Wheat Growers, especially with regard to the establishment of loan rates.

Mr. RAHJES. Certainly, I cannot speak for the wheat growers. I would only say that as we have discussed here previously, we are looking at the target loan rate concept, with a deficiency payment providing a supplemental income for farmers for a period of time.

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[1] See p. 532 for the prepared statement of Senator McConnell.

As we look into the world marketplace, the reserves that we hold are stocks that are held in this country, and what is depressing the world market is the fact that we are at least an attributable factor to it. There are large stocks that we are carrying over.

As we think about the loan rates, again, we are depending upon the deficiency payment for supplemental income for a period of time while we move into the marketplace to get the product moving in the world market.

Now, the only way we can do that with the dollar being as powerful as it is at this time is going to be a very strong emphasis on exports and the export title in the farm bill. Those, coupled together with the lowering of the loan rate, will allow us to move into the world market. As we have previously discussed here, even then we are going to have to use some bonus or some incentives to get it to move.

Senator McConnell. The American Farm Bureau advocates a standby authority for acreage reduction programs. Could it not be argued that an Acreage Reduction Program imposed on American wheat farmers is just a license for Australian wheat farmers to increase their acreage?

Mr. Rahjes. Any time that we reduce production in any manner, we do open that possibility. It has been done in the past, and that is another reason that we have to get our farmers in this country back on a good financial base so that they are able to take advantage of all opportunities.

The acreage reduction programs certainly could, and probably would be an incentive to other countries to increase their production, unless we get into the export markets with this type of bonus plan that we have been talking about and really compete with them to the point that it would discourage them because they cannot compete with us.

Senator McConnell. Thank you. One final question: again, as a wheat farmer, I do not know if you farm fragile land, but what kind of Conservation Reserve Program in terms of dollars and cents would it take for you to take wheat land out of production?

Mr. Rahjes. I think as we think specifically of wheat—of course, on my particular farm we are very diversified, but as we think of wheat production, I think a limitation would have to be placed.

I am sure you are referring to our testimony, are you not?

Senator McConnell. Yes.

Mr. Rahjes. Referring to our testimony, if I may just come at that from a different angle, what we would determine to be fragile lands would be that which would be determined by the Soil Conservation Service. So it would not be a point of whether or not we could grow wheat on that particular land or not.

If this land was determined by the Soil Conservation Service to be fragile land, then we could not farm it; we could not bring it into production.

Senator McConnell. Thank you, sir. Thank you, Mr. Chairman.

Senator Cochran. Thank you, Senator.

We appreciate your being here, Mr. Rahjes. You have been put through the grinder this morning with all these questions, have you not? You have done very well.

Mr. **Rahjes**. Well, thank you very much. It has been a real opportunity for me.

Senator **Cochran**. Thank you for cooperating with the committee as you have.

Our next witness is Robert Wager, who is president of the American Bakers Association, from here in Washington, DC. He also represents the Retail Bakers Association and the Independent Bakers Association.

Welcome to the committee. We are glad you are here. We have a copy of your prepared statement, which we will include in the record in its entirety, and we invite you to make any summary comments from that which you would care to do. Please proceed.

STATEMENT OF ROBERT WAGER, PRESIDENT, AMERICAN BAKERS ASSOCIATION, ALSO REPRESENTING THE RETAIL BAKERS OF AMERICA AND THE INDEPENDENT BAKERS ASSOCIATION

Mr. **Wager**. Thank you, Mr. Chairman. I do have a brief summary of the main points of my statement and I will proceed with that at this time.[1]

At the outset, we want to state that we have great empathy for the plight of the American farmer, and we realize that we, as well as all Americans, have a need to maintain a productive and efficient agricultural economy for the Nation. We want the Nation's farmers to have a fair return on their investment, managerial talent, and their labor. However, we believe that this return should come from the market, not from citizens' tax dollars.

We believe Congress should aim for three goals in the 1985 farm bill. One, commodity programs must become truly market-oriented. Congress and three successive administrations have claimed that previous laws were market-oriented, but, in fact, Government interference in the agriculture market has increased in recent years.

Now, Government must truly reduce its role and allow market signals to determine production levels for major crops.

Two, programs should be designed and support levels established in the 1985 act consistent with the objective of spending no more than $6 billion per year as an average over time on all commodity price and income support programs.

Three, while Congress is reducing the Federal role in agriculture, we must take care to avoid extreme swings in commodity prices. The rollercoaster prices of the early seventies had a severe impact on bakers, especially our small and midsized bakers.

Government has the responsibility to cushion low prices with an economic safety net to provide some stability for producers. At the same time, Government should provide some price protection for consumers against excessively high prices, which are an economic shock to business budgets and to family pocketbooks.

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[1] See p. 538 for the prepared statement of Mr. Wager.

Program recommendations: First, on loan rates, we recommend that loan rates be brought into closer alignment with market conditions by adapting the soybean formula to wheat. Under this proposed formula, the loan rate would gradually move up or down from year to year as prices rose or declined. This would provide considerable stability for market prices, while providing the price flexibility so badly needed to compete abroad.

Target prices: In this time of severe budget stringency, target prices must be reduced starting with 1986 crops and should be phased out over the next 4 years. Moreover, payments should be directed away from large, prosperous farmers who do not need them, and from small producers who obtain most of their income from nonfarm work, to small- and medium-sized farmers who depend on farm income for a living.

Acreage reductions: Four years ago, we recommended that Congress terminate authority for voluntary acreage reduction programs. Our belief has been strengthened by the lack of results from this program in recent years. Once again, we urge that Congress end this program.

Reserves: We support the farmer-owned reserve program. We believe it has a necessary and proper place among our commodity programs. We recommend that it be returned to its original purposes. To achieve this, CCC and farmer-owned reserve stocks should be capped at 700 million bushels of wheat, and the reserve entry price limited by law to no more than 5 percent above the current loan rate.

At the same time, the release price should be kept reasonable, no more than 150 percent of the entry price. Correspondingly, when the reserve falls below 300 million bushels, the Secretary should take measures to replenish reserve stocks.

Permanent repeal of the wheat certificate program: Section 303 of the current law suspends application of the Wheat Certificate Program until 1986. This relic of another era should finally be terminated. The bread tax should be permanently repealed. Until this can be done, Congress should act quickly on an amendment to the present law, or by joint resolution, to suspend all USDA activity leading to a referendum on an unworkable program for the 1986 crop year and to postpone the referendum now required by law for at least 6 months.

Mr. Chairman, we appreciate this opportunity to present our views to this distinguished panel. We will be happy to try to answer any questions you may have.

Senator ANDREWS [presiding]. Thank you so much. Good to see you again.

Mr. WAGER. Good to see you.

Senator ANDREWS. Let me ask a question. How much does $1 increase in the price of a bushel of wheat increase the cost of a loaf of bread?

Mr. WAGER. We calculate that it is about 2 cents.

Senator ANDREWS. Do you find that you have an adequate source of good quality wheat in the United States? You never have any problem getting the right kind of quality grain?

Mr. WAGER. In recent years, there have been very good supplies. The protein has not always been what we would like to see it, but we always have found that American wheat provides good quality for the baking industry.

Senator ANDREWS. Senator Melcher.

Senator MELCHER. What do you mean by variable costs?

Mr. WAGER. Variable costs are those costs of production that are not fixed, as, for example, the price of seed, fertilizer, and so on.

Senator MELCHER. What about interest rates?

Mr. WAGER. I would think that the interest on the loan that a farmer may have, the mortgage on his land—that would be part of his fixed costs.

Senator MELCHER. Variable costs or fixed costs?

Mr. WAGER. Fixed costs.

Senator MELCHER. What about the interest rate on his operating loans?

Mr. WAGER. I think if it was an operating expense, that would be classified as a variable cost.

Senator MELCHER. You state that Congress has raised the loan rate above market-clearing levels and substantially above variable costs. Now, you are referring to which loan rate, $3.30 for wheat?

Mr. WAGER. Where are you reading from, Senator?

Senator MELCHER. Page 6.

Mr. WAGER. We refer to the current loan rate.

Senator MELCHER. What cost figure do you have?

Mr. WAGER. Senator, this comes from a USDA publication that was a speech by former Assistant Secretary Bill Lesher that he made last year when he was describing the current situation with respect to the loan rates.

Senator MELCHER. I do not care how you got it or who said it. It is your testimony now. I am asking what are those variable costs. You say they are substantial. I do now know what substantial means in this case.

I am not sure from your explanation exactly what costs are put into variable costs let alone what is substantial?

I know what you recommend on how we work it out, but what do you suggest is the difference between $3.30 and the variable costs that you compute? Is it 20 cents, 40 cents, or what is it?

Mr. WAGER. I do not have a precise figure, Senator. I would be glad to try to provide that to the committee.

Senator MELCHER. The loan rate at $3.30 is considered by every land grant college that has been computing these costs as being more than a dollar lower than the cost of production.

Mr. WAGER. Well, I think, Senator, as we have discussed before, a lot depends upon how you make those calculations and what you include in fixed costs or variable costs. Depending upon the assumptions that you make, you can come out with any figures that you would like to have, and we have seen that process over the last few years.

Senator MELCHER. That is why we said in one of the farm bills we passed that the land grant colleges would submit their findings, and that seemed to be a fair way to get at a uniform figure since the costs were all over the lot, as you suggest.

I am telling you that the wheat loan rate at $3.30 is a dollar-plus below what these land grant colleges compute the cost of producing Do you want wheat to be produced? I suggest that you do. You suggest that we ought to have a continuous reserve of 700 million bushels. Is that what you said?

Mr. **Wager**. We said that the reserve ought to be capped at 700 million bushels.

Senator **Melcher**. Do you want a continuous reserve?

Mr. **Wager**. Oh, yes, we support the farmer-owned reserve.

Senator **Melcher**. You want a continuous reserve. You want somebody producing not only what we consume every year, but to be able to maintain that continuous reserve. Are you of the opinion that with a loan of $2.70, the same amount of wheat would be produced?

Mr. **Wager**. I am not sure how much wheat would be produced at a loan rate of $2.70.

Senator **Melcher**. If the loan rate were at $2.70, there would be a whole lot less wheat produced over the next 3 years and we might not have the ability to have this 700 million-bushel reserve.

Thank you.

Senator **Andrews**. Senator Heflin.

Senator **Heflin**. I have no questions.

Senator **Andrews**. Thank you very much, Mr. Wager. We appreciate your attendance.

Our next witness is Sam Darwin, the chairman of the Alabama Farm Bureau State Wheat & Feed Grains Committee, from Huntsville, AL. Mr. Darwin, it is good to have you here. Let me assure you that your entire statement will be put in the record as though you uttered every word. If it is a brief statement, you may well want to give it word for word.

Proceed.

STATEMENT OF SAM J. DARWIN, CHAIRMAN, WHEAT & FEED GRAINS COMMITTEE, ALABAMA FARM BUREAU FEDERATION, HUNTSVILLE, AL

Mr. **Darwin**. Thank you, Mr. Chairman. I appreciate the opportunity to come here today. I want to express our appreciation to Senator Heflin, who so ably spoke for agriculture in the State of Alabama, and we are proud of Senator Heflin's efforts on this committee for the efforts of Alabama agriculture.

Thank you, Senator.

Senator **Heflin**. Thank you, sir. We need more like you to be talking that way. [Laughter.]

Mr. **Darwin**. Mr. Chairman and members of this committee, my name is Sam Darwin. I am chairman of the Wheat & Feed Grains Committee of the Alabama Farm Bureau Federation. I am a full-time farmer in Madison County, AL, raising wheat, corn, soybeans, oats, and cotton. I appreciate the opportunity to come here today and express our views on wheat and feed grains in Alabama.

I have been involved in farming all my life and I feel that there has never been a time when consideration of a farm bill has meant so much to the family farm as the consideration of the 1985 farm bill.

I will outline just a few of the concerns we have on wheat and feed grains in Alabama. The target price and loan rate system is a good concept. We favor keeping the target prices and loan rates at least at present levels.

The target price concept provides one of the most valuable tools that farmers have in current law to keep Government actively involved in promoting and selling our production in domestic and foreign markets. It has worked well and has accomplished what was intended of it from the beginning.

It has provided the medium and small farmer with some degree of protection from forces beyond their control. The loan rate is an important marketing tool that at least provides a floor under the market. History shows that the market price seldom goes below the loan rate. If the loan is lowered, it will only mean lower market prices for already depressed commodity prices.

We cannot allow our loan levels to be set at the levels established by foreign products and world markets which are subsidized by foreign governments. We support maintaining an adequate safety net for agriculture which not only ensures adequate income protection, but which protects the diversity of production in all regions of the Nation.

We also favor maintaining the $50,000 payment limitation without a scaled-down reduction as proposed by the administration. Any reduction in payment limitation would adversely affect the average commercial family farm in Alabama. The average farmer can stand no further reduction in income at this particular time.

The U.S. trade policy is another area of concern to us. A stagnant world economy, U.S. embargoes, foreign trade barriers, predatory trade practices, and macroeconomic policies of the U.S. Government have severely eroded American markets. Nations such as Canada, the EEC, Australia, and Argentina have used export subsidies in world markets to gain a competitive advantage. Recently, the Communist Chinese have increased their activity in world markets.

We would ask this committee to use every means possible to restore world markets to a truly competitive status. This should include the utilization of blended credit; the adequate funding of export credit in either direct or guaranteed loans, with favorable terms to qualified customers; the employment of an export PIK, using surplus CCC commodities; countervailing duties on products from nations which employ predatory export practices; full utilization of Public Law 480, including the authority to allow payment for American products in foreign currencies; a complete elimination of cargo preference on all agricultural products; full protection of the sanctity of contracts, except in instances of true national emergencies.

We trust that the Agriculture Committee agrees that farmers should not be expected to compete with the subsidies of foreign governments on the world markets. The bank accounts of farmers are no match for the treasuries of foreign governments. Farmers should not be expected to compete with cheap labor in some countries of the world. We feel that Government has a place in agriculture and a responsbility to create a program that will keep the vast majority of American family farmers on the farm providing the food and fiber for this country.

We are also concerned that research at our land grant university at Auburn will be severely cut. We feel that our universities must continue to pursue research programs that will address production costs and market development for wheat and wheat products.

Wheat has become a major part of Alabama's agricultural economy in recent years. We do not have the wheat research in Alabama and the Southeast that is needed to compete with other wheat-growing regions of the world. We request that at least the current funding levels be maintained because production and utilization research must continue even in times of surplus crops.

I would now like to discuss the farming practices that have meant so much to us in Alabama. For example, double-cropping soybeans and wheat has become a profitable practice in Alabama and the Southeast during recent years. There are several combinations of double-cropping, such as wheat and sorghum and wheat and soybeans.

It provides income from two crops on the same acre in 1 year. Wheat harvest in early summer provides badly needed cash flow. This practice enables southern farmers to compete favorably with other producing areas of the United States who are able to produce higher yields at lower cost.

The economics of double-cropping wheat and soybeans depends on the price of seed for the two crops, a producer's type of operation, and other factors. Many growers have found that double-cropping, if properly managed, can return more profits per acre than a single crop of soybeans.

Generally, the yield of soybeans following wheat has been somewhat less than conventionally planted soybeans. Where reasonably good prices exist for wheat, however, the loss in soybean yield is compensated by the income from wheat and total profit is greater than full-season soybeans alone.

For example, a 40-bushel wheat crop that would bring $3.30 per bushel would net only $2.14 per acre. A 29-bushel soybean crop bringing $5.90 per bushel and planted after conventional land preparation would net $30.84 per acre, for a total income of $32.98 from the two crops. When double-cropped, however, net return is $50.19, even considering a 4-bushel soybean yield decrease.

The increased efficiency, land utilization and economic potential for double-cropping, where growing seasons and land use permit it, should be considered when acreage reduction programs are being developed. Such programs in the past have failed to consider these factors and have been prejudicial to southern producers.

We hope that our views will be helpful to you in formulating the future course of American agriculture. Thank you for your time, and we of the Alabama Farm Bureau look forward to working with you and this committee in the future.

Senator ANDREWS. Thank you very much, Mr. Darwin, for an excellent statement. We have been talking about costs of production and the number of crops, and you can see why we need that information in our deliberations when we finally put together this farm bill.

Your cost of production on what in Alabama, I gain from your statement, is about $3.30 a bushel?

Mr. **Darwin**. These figures are the average costs from our Auburn University.

Senator **Andrews**. Now, does that include the cost of the land?

Mr. **Darwin**. No.

Senator **Andrews**. So if you figured in a land cost, what would that be? What does land cash-rent for down there?

Mr. **Darwin**. Well, it depends on the areas of the State. I am in the extreme northern part of Alabama and the rent is higher in northern Alabama than it is in southern Alabama. But I would say on the average cash rent in northern Alabama is about $50 to $60 an acre.

Senator **Andrews**. So on this 40-bushel wheat crop bringing $3.30 a bushel, if you then put in a payment for land, you would get up to a cost of production of about $4.40, because you would have an additional dollar and a dime—actually, $1.20 if it is $50 an acre cash rent and you get a 40-bushel crop.

So then your cost of production would be about $4.50 a bushel of wheat.

Mr. **Darwin**. That is right.

Senator **Andrews**. Is that single-crop wheat, Mr. Darwin?

Mr. **Darwin**. Yes, that is single-crop wheat.

Senator **Andrews**. Now, when you double-crop wheat, do you still get 40 bushels per acre?

Mr. **Darwin**. Yes, on the wheat, but we take a reduction in the soybean yield by the fact that we get them planted later. We do not get them planted on time at the recommended planting dates of soybeans and they will not make as much, and we cannot insure them with crop insurance as far as high yield.

In certain instances, if we are late with a wheat crop, we cannot insure them at all.

Senator **Andrews**. In other words, you have to get them planted at a certain date in order to get crop insurance?

Mr. **Darwin**. That is right.

Senator **Andrews**. What kind of protein content do you get on your wheat?

Mr. **Darwin**. I am not sure about the protein content, but most of our wheat does go for feed and pastry there in the Southeast.

Senator **Andrews**. So it is a feed wheat or a pastry-type wheat, not the high-protein wheat.

What is the growing time? When do you generally plant that wheat and when do you harvest it?

Mr. **Darwin**. We plant in October or November and harvest in June.

Senator **Andrews**. So you have got close to 6 months that you need to grow that crop of wheat?

Mr. **Darwin**. Yes.

Senator **Andrews**. Then if you are double-cropping, you go back in in June and plant the soybeans?

Mr. **Darwin**. Yes. We plant the soybeans right behind the combine and then, of course, they come off in the fall, in October, November.

Senator **Andrews**. Then you go back in and plant wheat again?

Mr. **Darwin**. Then we go back in and plant wheat again.

Senator **ANDREWS**. Can you continue that rotation year after year?

Mr. **DARWIN**. No. We have problems on that and we have run into some diseases that we were not aware of and we have had to rotate and maybe put corn in the rotation for 1 year and then go back the next year with corn.

Senator **ANDREWS**. What kind of corn yields do you get, Mr. Darwin?

Mr. **DARWIN**. Well, of course, ours is dryland corn. My projected yield on my place is about 90 bushels.

Senator **ANDREWS**. What is your cost of production per bushel of corn?

Mr. **DARWIN**. An acre of corn costs us about—well, when I figure my costs of production, I am not sure what the land grant colleges got, but I like to figure land costs because I do have land payments. But I figure about $300 an acre.

Senator **ANDREWS**. So it would cost you $300 to produce 90 bushels of corn, and that includes the land cost.

Mr. **DARWIN**. Yes.

Senator **ANDREWS**. So your cost of production on corn is about $3.30 a bushel?

Mr. **DARWIN**. Right.

Senator **ANDREWS**. And that is, of course, a single crop a year.

Mr. **DARWIN**. That is a single crop.

Senator **ANDREWS**. What do you do with set-aside acres? If you are in the Wheat Program, you have to set aside 20 percent or 30 percent, or whatever.

Mr. **DARWIN**. Right. Well, on the set-aside program, the acreage requirement on wheat discourages farmers from participating in the Wheat Program if they are in this doublecropping system because they have to leave that set-aside idle, you know, for the wheat and soybeans both. So it actually discourages participation in the Wheat Program.

We feel like that we need this participation in the Wheat Program in the Southeast and we would like to see some consideration taken, you know, if we have a wheat reduction program in this area.

Senator **ANDREWS**. But in the case of a set-aside, if the farmer was going to double-crop wheat or single-crop wheat, that 30 percent would have to be covered with some kind of cover crop or grass.

Even though you get the opportunity to plant soybeans on the 70 percent of the land that you have left, as an alternate crop which gives you additional income, it still is not cost effective for you to have a set-aside of 30 percent?

Mr. **DARWIN**. Well, yes, that is right. But it discourages participation in the Wheat Program in the fact that a lot of farmers do not like to leave that 30 percent out, you know, when they could be planting the total 30 percent in wheat and then come back to the soybeans on the same ground.

Senator **ANDREWS**. So most of the wheat produced in Alabama is produced outside of the program.

Mr. **DARWIN**. I think that is right, in my particular area, of course.

Senator **Andrews**. But having the program in the major wheat-producing areas, although Alabama is getting to be quite a major wheat-producing area—but having the wheat program and participation in it in other areas helps maintain an adequate price level in Alabama.

Mr. **Darwin**. Right.

Senator **Andrews**. That is why you support the program?

Mr. **Darwin**. Right.

Senator **Andrews**. Thank you very much again for an excellent statement.

Senator Melcher.

Senator **Melcher**. Thanks, Mr. Chairman.

Sam Darwin, you give good testimony and I think you are well in command of the facts and we appreciate it.

Mr. **Darwin**. Thank you, Senator.

Senator **Andrews**. Senator Heflin.

Senator **Heflin**. I believe that the information from my staff is as to the wheat programs, only 5 percent of the farms, in effect, signed up for the programs because of the discouragement of the double-cropping relative to that issue.

Double-cropping—you drop in the soybeans; you lose 4 bushels an acre. Is that one of the reasons that historically in the South during the period of the 15th of August on past harvest season, it is generally dry with very little moisture and there is no moisture in the soybeans as a result of decreases in moisture?

Mr. **Darwin**. Yes. As a rule, we have severe heat stress, you know, starting in July and August, and that has a detrimental effect on the yield of soybeans if you wait until late June or early July to plant them. That is right.

Senator **Heflin**. Of course, the double-cropping from the viewpoint of—I do not know how much you do it up north in Madison County where you live, but a good deal of the State is doing conservation tillage with soybeans following the wheat and they are using this practice which is basically designed to try to save soil.

Do you do a good deal of conservation tillage in Madison County?

Mr. **Darwin**. Yes, it is becoming a real popular practice.

Senator **Heflin**. Is there much participating in the farmer-owned reserves in Alabama.

Mr. **Darwin**. I do not know of any wheat that is in the farmer-owned reserve in my area. The farmers just never have participated in it. I do not think there is a lot of participation in the southern part of the State either.

Senator **Heflin**. I do not believe that there is much, as far as I can tell. I believe that is all.

Senator **Andrews**. Thank you, Senator. And, again, thank you, Mr. Darwin. We appreciate your taking the time to come.

Mr. **Darwin**. Thank you.

Senator **Andrews**. Our next witness is V.B. Morris, who is the national secretary of the American Agriculture Movement.

Mr. Morris, good to have you here. Let me again assure you that your statement, which we have a copy of, will be included in the record in its totality, if you would like to summarize it.[1]

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[1] See p. 541 for the prepared statement of Mr. Morris.

STATEMENT OF V.B. MORRIS, NATIONAL SECRETARY, AMERICAN AGRICULTURE MOVEMENT

Mr. MORRIS. Well, Senator, let me say that once again, we are pleased to be here before you all and discuss the writing of a new farm program.

My name is V.B. Morris. I am national secretary of the American Agriculture Movement. My brother and I do farm in the Texas Panhandle. We have a very diversified farming operation where we raise wheat, corn, and grain sorghum, as well as several head of stocker cattle.

Our operation is mostly irrigated land and we do have a small feedlot there where we do some finishing work.

For the past 6 years, the American Agriculture Movement has presented enough testimony to fill a unit train. We have repeatedly predicted the economic collapse in agriculture, with the current and previous administrations ignoring this situation.

There is not much comfort in being right when your own industry has gone belly-up, but our previous testimony has proven we were right and the economists and politicians were wrong.

Senator, we sit before the most powerful committee in the most powerful political body in the world. You might not think so, but everyone in here and all over the world likes to eat.

Food has been used as a political weapon throughout the world and the farmers of this country have been the ones taking the brunt of it. We feel like not only the Wheat Program, but all the programs implemented here, should have a mandatory supply management program implemented with no exemptions.

We feel like the loan rate should be set at least at the cost of production, which is somewhere around 70 percent of parity. We think that with the sophisticated systems of technology we have at this time, the ability to predict domestic as well as strategic reserves and worldwide needs—we can raise whatever number of acres, pounds or bushels we need in the country through our ASCS system.

There is no need in the American farmer taking the brunt and being forced to take the entire debt load of the world on their shoulders, and this is exactly what has happened. We are forced to sell at $2, $3, $4 below the cost of production.

It will not continue that way; the farmers will not be able to continue producing at the present pricing structure. We know that there is less than 4 cents of wheat in a pound loaf of bread. If you doubled the price to the farmer, that would not raise a loaf of bread's cost more than 10 cents.

We feel the American people, the consumers, would be more than willing to pay that little extra cost to be guaranteed a stable food supply. We feel like the present food supply has been taken for granted. Our millers, consumers and everyone have taken this bountiful crop that the farmers have grown and it has actually been taken for granted and we have been forced to take the entire debt load on our shoulders.

At this time, I would be glad to answer any questions you might have.

Senator **Andrews**. Thank you very much, Mr. Morris, for an excellent statement. We have, of course, the AAM's farm bill proposal.

What is your cost of production for wheat in your area of Texas? What does it cost you to produce a bushel of wheat?

Mr. **Morris**. Believe it or not, even under irrigation conditions, it will cost us around $4.40 a bushel to $4.60 to $4.80 to raise it.

Senator **Andrews**. That includes the land costs?

Mr. **Morris**. That includes land costs, fertilizer, irrigation costs, all our fixed and variable costs.

Senator **Andrews**. You know, the thing that rankles me as a wheat farmer myself is to continually hear that somehow or another, we farmers are too high priced. We buy these big tractors and our cost of production is so high; that is why we do not sell our grain.

But in Europe, they support the price of wheat from $6.50 to $11 a bushel.

Mr. **Morris**. That is very true.

Senator **Andrews**. Japan is going to have a $37 billion trade surplus with us this year. I guess they produce Toyotas and Hondas that a number of Americans like to buy. But they support their price of wheat at $27.90 a bushel over there. The Soviet Union has a cost of production of in the neighborhood of $10 or $11 per bushel of wheat.

You know, one of the things we can do here is we produce that basic necessity of life, food, at less than anyplace else, with the exception of the Australians and the Argentines and perhaps the Canadians.

The Canadians' cost of production, and the Australians' as well, is close to ours. The problem is while our farm families can compete with farm families anywhere in the world, they cannot compete with other governments, and that is what we run into.

The other problem, as I see it, is the fact that we look at these farm price support programs and we talk about farm problems. In our country, we ought to be talking about the agricultural opportunity.

We have got 120 have-not nations, Third World powers that desperately need food. You can see on television what is happening—the tragedy in Ethiopia, the Sahel, Latin America. A lot of that fuss in Central America is coming about because people are hungry, and now we are trying to remedy it with bullets and bayonets when food would have been a better answer.

The great strength that we have, and I have observed this when I have been in other countries, is our food production. Yet, we get all bound in this idea of building MX's and one thing and another. These other countries that are looking for direction, wondering which of the superpowers to go with, are not that impressed by the fact that we can land a man on the Moon or blow the world up 10 times over.

They are impressed with the fact that we can feed our people and have a lot left over at a reasonable price. That is why I appreciate your statement because it points out the unique contribution that American farm families make to our Nation, and I think we ought to continue to say just that.

You mention the fact that farm price supports should begin to increase, and it goes up to 90 percent of parity. That would be significantly above the cost of production, as you describe it to me.

Mr. **Morris**. Well, 90 percent of parity; yes, sir, it would be above the cost of production. That would actually allow the farmer to have a profit, if that were ever to be.

Senator **Andrews**. At 90 percent of parity, that is in the neighborhood of about $6 a bushel.

Mr. **Morris**. A little over $6.

Senator **Andrews**. A little over $6, so a farmer would have a profit, based on your own figures, in the neighborhood of $1.60 a bushel, which would be a profit of 25 percent or so. Most manufactured products coming out of the automobile factories and the rest carry a 25-percent profit, as I recall, do they not?

Mr. **Morris**. Pretty close. Most industries figure 15 to 25 percent.

Senator **Andrews**. So what you are advocating is that the margin of profit in agriculture be comparable to the margin of profit in industry?

Mr. **Morris**. I think it should be.

Senator **Andrews**. Thanks again for an excellent statement, sir. We appreciate your appearance here.

Mr. **Morris**. Thank you, sir.

Senator **Andrews**. Our next witness is Marsha Jones, of the National Women Involved in Farm Economics. She is the Wheat Commodity Chairwoman from Grover, CO.

Ms. Jones, we are glad to have you before the committee. You can proceed. Let me assure you that your statement will be in the record in its entirety.[1] You can summarize it in any way you wish.

STATEMENT OF MARSHA JONES, NATIONAL WHEAT COMMODITY CHAIRWOMAN, WOMEN INVOLVED IN FARM ECONOMICS, GROVER, CO

Ms. **Jones**. Mr. Chairman and members of the committee, I would like to thank you for giving me the opportunity to address this committee. I am Marsha Jones and I represent National Women Involved in Farm Economics, WIFE. I am the National Wheat Commodity Chairman, elected by the wheat producers of WIFE from 22 State associations.

My husband and I farm and ranch in northeastern Colorado. I am an active producer that participates in our wheat cropping procedure. The Wheat Program that will be written into the Agricultural Adjustment Act of 1985 is of utmost importance to the survival of the American wheat producers, their communities and our Nation's economy.

WIFE feels that a cheap food policy at the expense of the producer cannot go on any longer. The American consumer, a title which includes farmers, who are the largest consumer in this Nation, has the cheapest, most bountiful supply of food in the world.

If wheat were $6 a bushel, a pound of wheat would cost a thin dime. That would make the wheat in a loaf of bread worth 8 cents.

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[1] See p. 542 for the prepared statement of Ms. Jones.

A 1-pound loaf of bread would cost 58 cents, up 4 cents from the cost of a loaf of bread in 1983.

In 1983, the total price spread between the farm and the retail store for a loaf of bread costing 54.2 cents was 49.1 cents, a record high.

The administration's proposal for the Agricultural Act of 1985 is claiming that a market-oriented program will permit the U.S. farmer to challenge his competitors in world markets. But every time a bushel of wheat is sold at home or abroad for less than it costs to produce, we are giving away the real wealth of our Nation.

WIFE would like the wheat producer to be able to enter into a fair market system, but we cannot compete with the treasuries of other nations who highly subsidize their producers. We cannot compete with governments who must export, and will do so at any price.

If we are to become a market-oriented supplier and sell our wheat at world prices, the Government must share the cost. We feel that until the wheat producer of the United States has regained a larger share of the world market, a supply management system must be implemented. It must be a mechanism that truly will reduce production at the marketplace.

WIFE supports a bushel allotment to control production. A bushel allotment reduction should not be left to the discretion of the Secretary of Agriculture, who is far too vulnerable to pressures from Cabinet officials, State Departments, and social groups, but should be based on a scale contingent upon an annual review of actual carryover wheat stocks.

WIFE opposes the caps proposed by the administration and feel they would make any reduction program ineffective by eliminating incentives for larger producers to participate. WIFE supports a target price that will reflect a realistic cost of production, plus a profit, with an escalating clause using the cost of living index.

A standard of economy must develop in which when the product of an hour of labor in agriculture will trade for an hour of labor in any other sector of the economy. In developing the Agricultural Adjustment Act of 1985, a system of price and income protection to avoid disaster for the Nation's producers must be formulated.

Loan rates must be set at a realistic cost of production not less than 75 percent of parity. WIFE supports a normal crop acreage as a requirement for support prices, loan, target and disaster. A constant and consistent NCA is necessary to implement an efficient, fair, and realistic Reduction Program in years when the carryover stocks signal the reduction is needed.

Reserves were designed to assure a constant food supply. This reserve must be farmer-held and the farmer must receive adequate storage payments.

WIFE supports the Public Law 480 Program. It has proven to be an effective program for foreign assistance to underdeveloped countries, plus has assisted in developing long-term markets for our wheat producers.

WIFE recommends that funding be increased and that flour and other byproducts from alcohol fuels be added. If we are to become market-oriented, the markets have to be developed.

The U.S. Government has weakened our export markets by singling out agriculture with real and implied embargoes. We recommend the reauthorization of embargo protection provisions adopted in the 1981 farm bill.

WIFE has diligently worked in Washington during the writing of the last two farm bills. We appreciate the opportunity to participate in the governmental process. Our goal is a strong agricultural economy, which would create a strong national economy.

We understand the task you have in writing this complex piece of legislation and we know you will remember that it could either make or break the American farm family as our Nation's food producer.

Thank you for your interest in the welfare of American agriculture.

Senator **Pryor** [presiding]. Thank you very much. I am Senator Pryor from Arkansas and I am here to relieve Senator Andrews. We are very appreciative of your testimony this morning before the committee.

I would just like to say as one Senator from Arkansas that I strongly applaud the efforts of your organization. You have a very, very fine chapter in our State of Arkansas and they are extremely active. They have been a very positive force in articulating and expressing the views of farmers of all walks of life, and especially during this time of agricultural crisis and organization like your own, I think, certainly has never been more needed than it is today.

We know that you have worked very hard and that you are committed to the involvement of trying to help the farmers through this crisis, and we are very, very appreciative of your statement this morning. Thank you very much for coming.

Now, we have Walter Adams and George Levin. Do we have Mr. Levin?

Mr. **Levin**. Yes.

Senator **Pryor**. Mr. Levin, just come forward if you would like. We will just have both of you gentlemen together, if that is all right.

Mr. Adams is a wheat producer from Sharon, OK. Mr. Levin is chairman of the board of the Independent Stockgrowers of America, from Sturgis, SD. Sir, if you do not mind, just sit right here and we will ask Mr. Adams if he would give his statement first.

We welcome both of you gentlemen before the committee this morning.

STATEMENT OF WALTER ADAMS, WHEAT PRODUCER, SHARON, OK

Mr. **Adams**. Thank you for giving me this opportunity just as an independent farmer to give testimony here. I do belong to several farm organizations and several of them reflect my views, but they do not all, of course. That is why we are having these hearings, I guess.

You are used to hearing experts testify. I consider myself an expert in growing wheat and cattle. I do not, however, consider myself an expert in marketing my commodities. I feel in the past that when this farm bill legislation was discussed, the experts that did testify from the academic world, exporters, processors, and even sometimes the farm organizations, did not have my best interests at heart.

We hear a lot about free trade and world market prices. I have an opinion about free trade, but I am probably not very knowledgeable about all the ramifications of it. However, I am extremely knowledgeable about world market prices, as they are posted everyday in my elevator.

The radio just bombards me constantly with reports from the Chicago Board of Trade about the prices. I know little about Keynesianism, monetarism or supply side economics theories, but I do know that the strong dollar puts a 35-percent export tax on my wheat.

Back to the overworked phrases "free trade" and "world market prices," these words are considered sacred by three groups of people most of the time and one group all the time. First, the exporters; they want cheap commodities, trade in large volumes. The processors want them to sell in large volume, and the consumer, of course, naturally, wants to buy as cheaply as possible.

These three groups believe in free trade to a point. That point was reached in the seventies with high prices in almost all commodities. Beef prices were frozen, soybeans embargoed, wheat loading stopped by dock workers and embargoed by Government. Free trade apparently works fine until it works too well.

A fourth group is from academia. They seem to favor free trade all the time. College professors love to expound on theories as long as they do not affect their salaries. The U.S. economists who are so vocal about free trade and market-clearing prices apparently have no counterparts in Europe or Japan.

These countries, with a living memory of hunger, still associate food with farmers. They have no intentions of making their farmers compete with the world prices of commodities. These rich industrialized countries refuse to let world prices dictate the internal prices of their farmers' production. They apparently realize that the so-called world market is really a dumping ground for surplus commodities.

Our family farmers are the envy of the world; our 30-acre tobacco farmer in the Southeast, our 40-acre truck garden farmer in the Northeast, our 400-acre corn and soybean farmer in the Midwest, and our 4,000-acre family farmer growing wheat in the Great Plains are indeed the envy of governments around the world.

Of his total grain production, the U.S. wheat farmer exports two-thirds, the soybean farmer almost one-half, and the corn farmer almost one-third to feed a hungry world. Farmers provide 20 percent of the gross national product. Yet, we spend 1 percent of our Federal budget on price supports to compensate farmers when the marketplace fails them.

Most governments would probably consider this a bargain. Many people, with the encouragement of USDA, are calling these expenditures obscene. Remember, these are subsidies targeted to the family farmer to keep him healthy.

Our Government has spent billions—I think it is in the neighborhood of $7 billion—of U.S. tax dollars to help other countries develop their agricultural economy. This is done by encouraging small family farms, not big farms.

We see social unrest in Central and South America because the land is in the hands of a few. And Russia, with her huge state farms, buys grain from the U.S. family farmer. Bigger is not necessarily better. Look at how retailing has changed. Small grocery stores are coming back in the form of quick stops. The new shopping malls are filled with many small shops.

Do not listen to everyone who says bigger is better. Do not listen to the economics professor with his head in the clouds trying to predict things of the Earth. Listen to the farmer.

Do not listen to the Department of Agriculture, filled with people from the ranks of processors and exporters. Listen to the farmer. Do not listen to the President, with his view of large California agriculture operations that are totally unlike any other in the country. Listen to the farmers.

Listen to the farmers who produce the 40 percent of American agriculture that is exported at world prices. According to USDA, only 40 percent of American agriculture is in trouble.

Now, these two groups of farmers are one and the same, and these farmers are telling you the system is not working and it is killing them. We have lowered the domestic price for food in the last 30 years from 30 to 15 percent, or less than 15 percent, of the average U.S. worker's take-home pay. We cannot lower our prices further. In fact, we could double the wheat price and not bring the price of bread up very much.

Gentlemen, please help me preserve this unique food-producing unit, the family farm. I am not greedy, but I am selfish. I want to see my children's children, not Tenneco or Cargill, farm this third generation family farm.

Senator **Pryor**. Thank you very much, Mr. Adams. Mr. Adams, I want to extend to you the apologies of Senator Boren of Oklahoma, who is a very fine member of this committee. He is at another committee at this time, and we do appreciate your coming and I know he was very sorry that he could not be here to personally introduce you before the committee this morning.

You have brought up something here that, to me—I do not know a great deal about this, but you have brought up the fact that you are knowledgeable about world market prices of this nature.

I think, today, we expect our farmers not only to be efficient producers, which you are, but also to be knowledgeable of all of the world market prices and trends and changes almost on a daily basis—almost more than one farm family can comprehend. I applaud you for being knowledgeable about those.

Does the Crop Reporting Service of the U.S. Department of Agriculture—do you think that this helps or hurts a farmer such as yourself, I guess, especially in the area of commodities such as wheat?

Some think that this only benefits the traders rather than the farmers, and since you are a family farmer, I would like to hear your comments.

Mr. **Adams**. Well, I really have mixed emotions about it. Anytime they come out, they affect trade so much that they will not even release the information before the commodity ceases trading for the day.

The private companies have their own reporting systems; all of them do, all of these private grain-trading companies and commodity-trading companies. So I really have mixed emotions about it. I do not know. I feel like sometimes the reports hurt us.

It seems like most of the information that has been coming out for the last few years does hurt us.

Senator **Pryor**. I was involved in a political campaign this last year. During the fall, I was at one farmers' machine tool shop and we had, I guess, 400 farmers in the shop on a rainy October afternoon.

Many of the farmers there expressed a deep concern and worry about the Chicago Board of Trade not really being an instrument of help, but rather sometimes hindering in their trading policy the ultimate price that that farmer would receive for his commodities.

I wonder if you would like to make any comments on your feelings about the board of trade and the way prices are set or the way that commodities are traded. Do you think this has a good or an adverse impact on American agriculture, especially farm families?

Mr. **Adams**. Well, I have some strong feelings. I feel it is detrimental to the family farmer. The price at my elevator every day is based on the close at the Chicago Board of Trade. Now, they may move it up or down or change their bases, but it is based on the way it closes.

What determines that price that day is not necessarily supply or demand, but what someone thinks supply or demand is. Also, it reflects the number of trades that were made that day. If that day, for some reason or other—and I do not understand that much about it, but I do know that if they sell a whole bunch of commodity on the board of trade, the price goes down that day and my market price follows it.

Now, I realize that they do not change supply or demand, so if it does get out of line, it will eventually come back. But if I have to sell my wheat on a day that there were some rumors started—and this happens quite often—and people traded those rumors, a lot of the small traders follow the big traders.

So you get a rumor started, whether it is true or untrue, and it will affect the price that day. And if I have to sell my wheat or my cattle the day that someone started a rumor and got some prices changed so they could make some profits on the Chicago Board of Trade and it drops my price 10 cents, they hurt me.

I may be lucky and get in when it has gone up, but I do not think so. It is like Mr. Hetherington, who is the director for the Commodity Futures Trading Commission, said you have got to remember that the people who want the prices down use the Chicago Board of Trade, the processors and the exporters.

The farmers do not use the Chicago Board of Trade, so it does not go the way they want it to go. I really believe that as soon as the smoke clears on this farm bill, I really hope this committee would investigate the trading practices and stop this speculative short selling in the Chicago Board of Trade.

They can sell a commodity they do not have and drive the prices down and I do not think it is fair. I think if that one thing was eliminated and some other unfair trading practices, it would really help the family farmer.

Senator **Pryor**. Well, back to my visit in the machine shop, I made a political commitment that I was going to bring the Chicago Board of Trade chairman back to this same machine shop and I was going to let the farmers have at him and say anything that they wanted to because they have never had the opportunity to—I do not want to say confront, but at least to question the chairman of the Chicago Board of Trade.

On April 10, he is coming back and he is going to that machine shop. I do not know whether that place is going to hold all the farmers that are going to be interested in meeting this gentleman or not. But, he has consented to accept our invitation and he is going to go. I think it will be a good airing of views. It will allow them to ask questions and to present their point of view.

Something else that you keep coming back in your statement and saying is listen to the farmer, and I want to thank you for that. You are expressing a philosophy that I have. Especially at this time, we have got to listen to the farmer.

I think it was this statement or the previous statement that talked about 1 to 1½ percent of the budget is going into basically——

Mr. **Adams**. Price supports.

Senator **Pryor**. Price support programs. I think, in my opinion, this is a great bargain that the American people have.

Mr. **Adams**. Yes.

Senator **Pryor**. Like you say, it is the envy of the world.

We are so very appreciative of you coming here today all the way from Oklahoma. Of course, this will be a permanent part of our record here on the farm bill, and we have got a tough job in trying to meet all the challenges in coming up with the writing of this particular piece of legislation.

Mr. **Adams**. I have some other questions. Could I——

Senator **Pryor**. Certainly, but I may not be the one to answer them.

Mr. **Adams**. Well, these are questions I feel like should be answered in the farm bill.

Why is the Consumer Price Index so sacred and the Farm Parity Price Index not? I am just speaking as a farmer out there. These are things we do not understand.

Why is the USDA so full of people from exporters and processors and not producers? Why is the ASCS, as well as the farm credit system, pulling all the power from the local boards and committees into Washington or into their farm credit headquarters, like Wichita, where my farm credit headquarters is?

Why do the ASCS rules encourage and not discourage production? Now, the following are rhetorical questions, I guess, that no one can answer, but why does John Block say that the program does not work when he does not work the program? We do not understand that.

I wondered if maybe it is not time to take a look at a wheat board or maybe a grain production board to be in charge of production and marketing in this country. We have left the pricing and the marketing up to the private sector, and I know that many people feel like the Government has gotten involved in areas where they should not with social programs and that private industry can better handle the problems of the United States than can Government.

But there is no segment of private industry that wants me to have a profit in agriculture. There is not any segment in private industry that wants me to have $5 wheat. My elevator operator, bless his heart, he is the nicest guy in the world, but when wheat was $5.50 a bushel, he was scrambling for cash and it embarrassed him that he could not pay for it. So he does not want $5 or $6 wheat again.

So private industry—there is no way that it can provide me with the prices I need. By its very nature, the way we handle our commodities—by our pricing structure, the only way we can get a price is by lowering production in this country. That is the only way we can increase the price in this country, by lowering production, and we run into all sorts of problems with doing this.

We have tried to subsidize the farmer by the loan rates, which many people believe is providing a price umbrella for the world, a floor price for the world. There are just so many things that need to be addressed. There are so many ramifications of the problem; you have got your work cut out for you trying to come up with a farm bill.

Senator PRYOR. You are absolutely right; we do have our work cut out. I hope you will leave those questions and we will put those questions in the record and they will be part of those concerns and our deliberations in the final markup of this very critical piece of legislation.

Mr. ADAMS. There is also a recommendation on a national production board I will put in here, also.

Senator PRYOR. Fine. The record will include that.

[The following questions and recommendations were submitted by Walters Adams of Sharon, OK:]

1. Why is the Consumer Price Index so sacred and the parity price not?
2. Why is the USDA full of people from exporters and processors and not producers?
3. Why is ASCS as well as the Farm Credit System pulling all power from local boards and committees?
4. Why do ASCS rules encourage and not discourage production: A. You have to plant all base acres to get deficiency payments? B. If you don't plant all of your base you lose it? C. Get more base if you stay out of the program and overproduce?
5. Why does John Block say the program doesn't work when he does not administer the program properly.
6. Why is the U.S. wheat industry not proportionally represented on the Federal Trade Commission.
7. Is it time to look at a wheat board or grain production board to be in charge of production and marketing?
8. Has the President's program forgotten the Great Depression?

RECOMMENDATIONS FOR LONG RANGE FARM PROGRAM

Congress recognizes the fact that the farmers of the United States have increased their productivity substantially during the past 15 years as a result of increased use of fertilizers, improved and larger mechanized equipment; conservation practices, and increased efficiency to the point that domestic and foreign demands have not kept pace with production. The overproduction of certain basic agricultural commodities has caused prices of such commodities in most cases to decline to a point below the cost of production. The current support programs and the payment in kind (PIK) program are inadequate and far too costly to be continued unless mandatory production controls are instituted immedately with respect to basic agricultural commodities. Factors, other than overproduction, have contributed to the plight of the farmers, such as (a) high interest rates, (b) high energy costs, and (c) the fact that the export of certain basic commodities did not keep pace with production which decline in exports was agitated by the grain embargoes.

Congress is cognizant of the fact that in the years ahead (maybe 10 or even 20 years hence), our nation and the world could be confronted with a reverse situation of that of overproduction which could easily create a more serious problem than the present crisis; therefore, Congress should take steps now to establish a "Long Range" farm program.

To cope with the problems, it is essential that Congress immediately establish a non-partisan "National Agriculture Production Board" with ample authority to manage the production, supply, and demand (foreign and domestic) of basic agricultural commodities produced in the United States. This Board should be mandated to maintain a balance between the demand and supply with ample reserves to protect the consumers from a shortage of food products arising from droughts, emergencies, etc.

Congress should direct the Board to exercise its authority to the utmost to meet the immediate crisis and to reestablish prosperity in the agriculture segment of the economy and to insure that the people of these United States will have ample supplies of the basic commodities to meet the current and future domestic needs and the maximum export needs of such basic commodities.

The members of the National Agricultural Production Board should be appointed on the basis of their respective expertise in the following fields of endeavor:

(a) Domestic produciton and domestic food requirements.
(b) World food production and world food requirements.
(c) Agriculture economy.
(d) National Foreign Policy.
(e) Agriculture Marketing and Finance.
(f) Management and Administrative.
(g) Conservation.

The Board should operate independently of the Secretary of Agriculture; however, the Secretary of Agriculture could be an ex-officio member.

The Commodity Credit Corporation should be removed from the jurisdiction of the Secretary of Agriculture and reestablished as an independent entity as it was organized in the year 1933. The policy-making decisions of the Commodity Credit Corporation should be vested in the "Board". The Board should be directed to operate the Commodity Credit Corporation on a "self-sustaining" basis and under guidelines of our free enterprise system. The administrative personnel could be carried on by the U.S. Department of Agriculture pursuant to guidelines and policies established by the Board. Commodity Credit Corporation's existing commercial export credit programs and P.L. 480 programs should be continued along with support programs.

The Board should be vested with full power to establish Mandatory Production Controls, and with such power, the Board should be able to operate the Commodity Credit Corporation on a self-sustaining basis without much cost to the taxpayers.

Congress should apprise the people of the United States that it has the responsibility to maintain a greater supply of basic commodities as a carryover from year to year than is actually required for current domestic and foreign policy needs in order to protect the general welfare of all people from an emergency situation, such as droughts, emergency world-wide demands, etc., as the law of supply and demand, which ordinarily controls price levels, becomes inoperative as to basic agricultural commodities. Therefore, government must maintain a support program in place to protect the farmers where an imbalance in supply and demand occurs which depress the agriculture basic commodities prices below 90% or 85% of parity. Any payments to the farmers under the above immediate circumstances would, in effect, be considered as a payment of insurance premium and not as a gift or subsidy. Congress, in such a circumstance, should be required to replenish by appropriations the capital of Commodity Credit Corporation to the extent of any payments made to farmers to cover the estimated price reduction due to the imbalance of supply and demand. The Board, having the right to set mandatory production goals, the payments referred to immediately above should be relatively small, if any, unless some unanticipated situation arises whereby a substantial quantity of a basic commodity is not exported.

To meet the immediate crisis pending the implementing of mandatory controls, the Board should be directed to immediately (1) freeze the sale or disposition of any commodity under the control of the government, (2) extend all commodity loans for one year from maturity date of existing loan provisions, (3) designate and freeze a specific quantity of each commodity in surplus as a "reserve" for the protection and general welfare of all the people. The cost of storage and maintenance costs of such a reserve to insure ample food supply would be cheap insurance. (Note: The old War Production Board could testify that our corn and feed grain supply reached a critical low of approximately 50 million bushels of corn during World War II).

The Board should be directed to develop programs of barter and exchange of agricultural commodities with other nations in an effort to reduce our balance of trade deficit.

Commodity reserve inventories should be earmarked to protect the general welfare of all people and be so managed that such inventories would never be instrumental in depressing the price of any agricultural commodity.

Senator PRYOR. I thank you on behalf of the committee, Mr. Adams. I am sorry that at this stage in the proceeding, more of our members were not here, but a lot of things are happening at this moment around the Hill. I know they would like to hear this testimony, also, but it will be made part of the record, together with the questions and the suggestions that you make.

Our next witness is George Levin. Mr. Levin is chairman of the board of the Independent Stockgrowers of America, Sturgis, SD.

We appreciate very much your coming, Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman.

My name is George Levin. My family——

Senator PRYOR. Pardon me. I pronounced that—we have a very distinguished Senator named Senator Levin, from the State of Michigan.

Mr. LEVIN. Yes. I have to teach him how to pronounce that name.

Senator PRYOR. OK. It is Levin; I apologize.

STATEMENT OF GEORGE D. LEVIN, CHAIRMAN OF THE BOARD, INDEPENDENT STOCKGROWERS OF AMERICA, STURGIS, SD

Mr. LEVIN. My name is George Levin. My family operates a cattle ranch in western South Dakota near the Black Hills. Our ranch is in the area where the baby calves are born and where the beef production cycle begins. I myself have been ranching there 42 years and it is a three-generation ranch operation; my folks homesteaded the area.

Ranchers in our area are in deep financial trouble and many of them have been forced out and they do not understand why their plight is not receiving national attention, also. In view of this situation, we are presenting a comprehensive proposal here covering all commodities–livestock, livestock products, as well as all agricultural commodities. We pattern our proposal along the lines of the principle embodied in the National Wool Act.

The long-time U.S. policy of encouraging abundant food production and using this abundance to influence international affairs has had an adverse effect on the agricultural community, but not in our history has its impact been so devastating as today.

Many thousands of farmers and ranchers are being forced into bankruptcy and are facing that possibility, and rural communities are losing businesses as more and more of them take on the characteristics of ghost towns.

The back of agriculture is being broken. What has been called a cheap food policy, but more accurately, the low farm commodity price policy, is the major cause today of farm failure. The main aspect of this policy is that of using food as a weapon in international affairs and its longstanding bipartisan support.

In 1974, Agriculture Secretary Earl Butz stated that food is a weapon; it is one of the principal tools in our negotiating kit. Orville Freeman sounded a familiar theme in 1961. At his swearing-in ceremony, the present Secretary, John Block, mentioned using food as a weapon and indicated that the administration would continue the policy, as they have.

The cheap agricultural commodity price policy is not the only aspect of the farmers' predicament. Of great importance is the weak or ~~no~~ bargaining position as they strive for their share of the economic pie. On the other side of the table are powerful economic interests, many of them huge monopolies which dictate the prices farmers pay and what farmers are paid for what they have to sell.

The New Deal Programs implemented in the 1930's met the needs of agriculture. In the 10-year period from 1942 to 1952, farm prices averaged well above 100 percent of parity. The farm programs were working well at that point in time.

But that was before the Government began to rely so heavily on using food as a weapon to enforce and implement the Nation's foreign policy. After 1952, we saw a determined effort to undermine the ever normal granary program and to seek lower domestic grain prices.

The cheap agricultural price policy was born, and today it is the dominant characteristic of America's food policy. About this same time, food retailing began to concentrate into huge, nationwide food chains who had the ability to set prices on beef on the national level, to the detriment of consumers as well as cattle producers.

Not only did they have the ability to fix prices, but they actually did, as was proven by admissible evidence in a San Francisco Federal district court. Even though the Nation's largest retailer, A&P, found guilty of price fixing and paid out $10 million in damages, no one went to jail or was fined. The Justice Department chose to ignore the case.

Today, beef is selling over the counter at some of the highest prices in history, while cattlemen and ranchers are going into bankruptcy producing it. The failure on the part of the Government to come to grips with the concentration of food retailing and the evolution of the cheap agricultural price policy were new factors in the agricultural equation that the New Deal farm programs were not structured to deal with.

Consequently, farmers and ranchers today stand virtually naked before the onslaught of a national policy that they themselves must bear the major cost of. That is why agriculture is in crisis today.

The Government policy to keep farm commodity prices low is reflected in the 55 percent of parity for farm commodities today. In recent years it has seemed to be Government policy to encourage the growth of monopolies and permit the weakening of the antitrust laws, which puts farmers at an even greater disadvantage.

Allowing the ruling by the Supreme Court in the *Illinois Brick* case to go unchallenged is a case in point. That ruling, which prevents those who have dealt indirectly with an alleged price fixer from maintaining an antitrust action, had the effect of repealing the antitrust laws as far as the protection of agriculture was concerned.

Nor does increased exports or the lowering of interest rates provide a meaningful avenue of escape for distressed farmers. Agricultural exports have been doubled in the last 10 years. Yet, today, many export commodities are selling below 50 percent of parity.

Reducing interest rates, even if it were possible, in this time of huge budget deficits, would not help enough. More and more leading economists are saying big improvements in commodity prices are needed to prevent the complete collapse of the rural economy and the financial institutions that serve it.

These and other factors, combined, deprive the farmers of any hope of getting their rightful share in the marketplace. Government policy, as it is structured today, just does not permit it.

A small segment of our population, agriculture, is called upon to bear the major cost of a national policy that is thought, at least by our policymakers, to be in the interest of all, unless the Government is willing to intervene in a way to spread the cost to all of society.

The 1985 farm bill must have as its main provision a formula that will have the effect of equalizing the costs of national policies. Much precedent has been set in the past in this respect. If it can be agreed that all of us should bear the cost of national policy rather than one small group. Then it would be a fairly simple task to write a new farm bill.

I submit the following as a proposal that, if adopted, would have the effect of spreading the cost of national policy and would revitalize the rural communities and prevent mass foreclosures of independent farmers and ranchers and small-town businesses.

Under this proposal, the USDA would establish target prices at 100 percent of parity for all agricultural commodities. Under the provisions of the 1985 farm bill, each producer would be paid the difference between the average market price for the year and the target price. These payments would be on whatever was produced, be it grain or livestock or livestock products or cotton or wool or vegetables or fruit, and so forth.

Participation would be on a voluntary basis. Those wishing to participate will furnish evidence of sale to the local ASC office shortly after the end of the marketing year. Average selling prices will be known then for all commodities and it can be determined what the payment rate for each commodity will be; target price minus selling price equals payment rate.

These payments would be limited in a way that would not encourage the overexpansion in agriculture. They would apply only to a volume of production that would yield a net equal to the median income, and the median income is somewhere in the neighborhood of $23,600.

To further refine this proposal to prevent the influx of outside investors bent on taking advantage of the plan, any nonfarm income in excess of two-thirds of the median income would be deducted from incentive payments due under this plan.

Agricultural producers who have nonfarm income will have the amount which is in excess of two-thirds of the median deducted from the payments they are eligible for. The volume of production will be determined to which target prices would apply, and we say that land costs will be treated as an expense along with normal cost of production expenses in determining that volume.

Some of the advantanges very briefly: A smaller bureaucracy would be needed to operate the Farm Program. The marketplace will determine all prices. The marketplace will be free to reflect product quality. Farmers will be paid on only what they produce.

The U.S. would become more competitive in the world markets. Broad-based support would be assured. For the first time, a true safety net would be provided for the family farmers. We will end the distortion of America's agricultural production pattern.

Compliance would be on a voluntary basis, and it would automatically phase out when parity becomes a reality in the marketplace.

Now, there is much that could be done to reduce the cost to Government of this kind of program. Amending the Clayton Act to make it possible for ranchers and others to get more of a fair income in the marketplace—working with other exporting nations to raise world grain prices would make it possible for grain growers to get more of their income from the market.

Vigorous prosecution by the Justice Department of monopoly practices would translate into higher market prices and reduce Government costs. This plan does not preclude or discourage any other effort to raise prices in the marketplace. It is only a safety net for family farmers.

It can be said that the farm programs have failed, and they have. But they have failed because they were not adapted to meet the changing needs. This failure does not justify eliminating farm programs any more than one could justify ending all law enforcement in our Nation because we have not succeeded in stamping out all crime. That would be suicidal for the Nation.

Ending all farm programs without getting the Government out of all the areas where Government has a negative impact on agriculture would be suicidal for agriculture as well.

Thank you, Mr. Chairman. That is the end of my formal remarks.

Senator **Pryor**. Thank you very much. I think you have brought before the committee some new, and perhaps even some innovative ideas that I think the committee needs to explore. I am very appreciative of you being here, and I know I speak for all of my colleagues and members of the Senate Agriculture Committee.

You have an organization. Now, is the organization just in South Dakota that you represent or is this——

Mr. **Levin**. This organization was organized some 20 years ago to help prosecute the antitrust case against the retailers in California, and there were several groups in about 7 Western States that were involved in that. Our organization was involved.

We did get a favorable verdict out there. The jury originally awarded $32.5 million to 7 ranchers in that case. Finally, with an out-of-court settlement, they got $10 million. I was not a plaintiff. I was a witness in the case.

But what we are saying here is that farmers can no longer bear the major cost of the Nation's food policy. We have got to find a way to spread it to all of our citizens, and that is why agriculture is in trouble.

We can see the positive impacts of this kind of program. This puts every farmer in the Nation in a positive income position, and the impact on rural America—it would be hard to measure that.

I visited my chamber of commerce and I told them, you know, there is a pent-up demand out there for pick-ups and tractors that no one can really comprehend, if farmers had the money. This puts the money into the hands of the farmers, and then farmers will become taxpayers, too, and help pay for the program.

It would also be a powerful incentive for our Government to do some of the things that I have suggested about world trade and some of the other areas because if they do not, this program would cost them quite a bit of money.

Senator PRYOR. I think all too few consumers really realize how very little the farmer is actually getting from their dollars they spend at our supermarkets and grocery stores today.

Do you have any facts and figures on that? If you have any of those facts or figures, we would be glad to insert those into the record.

Mr. LEVIN. I have a graph here showing the price spreads on beef that I think is kind of interesting. The bottom line is the packer's spread over a 25-year period. The top line is the retailer's spread. While the packer is living with about a $50 spread on a carcass of beef, the retailer, in August 1984, was getting $466 on every carcass of beef.

You cannot tell me that the retailer does more in the processing chain than the packer because there is much more work at the packing end of it.

I did have a few other things to go in the record here for you to look at.[1]

Senator PRYOR. Fine.

[The following chart was received by the committee:]

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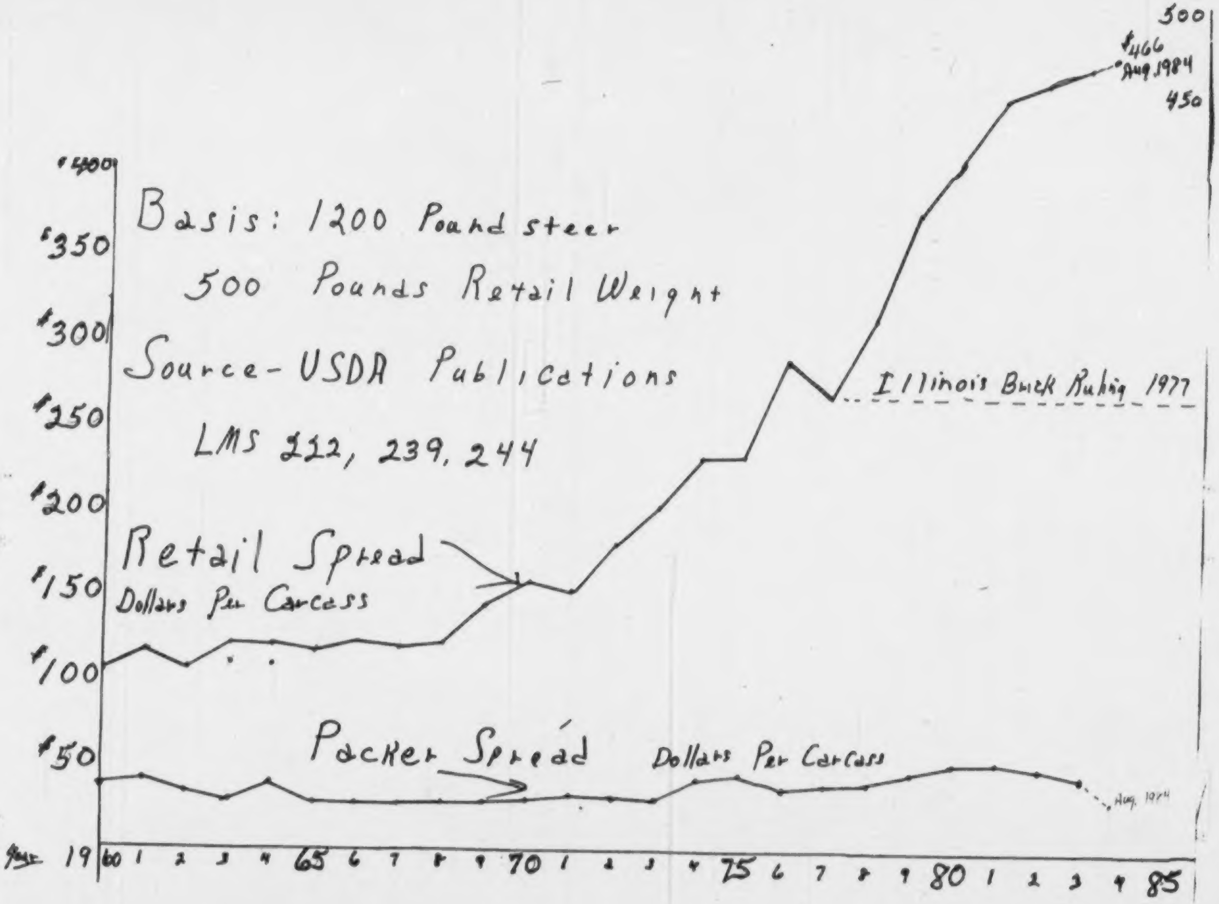
[1] The other material supplied by Mr. Levin can be found on p. 544.


Basis: 1200 Pound steer
500 Pounds Retail Weight
Source- USDA Publications
LMS 212, 239, 244
Retail Spread
Dollars Per Carcass
Packer Spread
Dollars Per Carcass
Illinois Buck Ruling 1977
$466
Aug 1984
Aug 1984
$400
$350
$300
$250
$200
$150
$100
$50
500
450
Year 19
60
1
2
3
4
65
6
7
8
9
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1
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75
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80
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4
85

Senator **Pryor**. Mr. Levin, we are very appreciative of your coming. You have traveled a long way to Washington for this hearing and we are very appreciative of your being here. I think, like other witnesses, you will recognize that this committee has a tremendous burden and challenge, I guess we should say, before it in trying to draft legislation that is going to work for the farmers of our country because they are facing survival right now.

Mr. **Levin**. What is hard for me to understand is why it is so difficult when here is a proposal that will do everything we want to do for farmers and let our market system work. It would go to a free market, it would let us become competitive in the world markets, and would take off of the farmers the cost of whatever is happening at the commodity exchange.

It becomes society's problem, then, and they work it out, and pay the cost if they cannot work it out. Today, we do not work it out; the farmer pays the cost. So I hope someone takes a look at this proposal.

Senator **Pryor**. Well, we are very appreciative of your appearing.

Mr. **Levin**. Thank you very much.

Senator **Pryor**. Thank you, sir, very much.

Mr. **Levin**. Thank you very much.

Senator **Pryor**. Thank you.

I do not believe there are any other witnesses to come before the committee, so the committee will stand in recess until 9:30, Friday.

Thank you.

[Whereupon, at 12:39 p.m., the committee recessed, to reconvene at 9:30 a.m., Friday, March 29, 1985, in room 328-A, Russell Senate Office Building.]

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

Cotton Issues

FRIDAY, MARCH 29, 1985

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met at 9:40 a.m., in room SR 328-A, Russell Senate Office Building, Hon. Thad Cochran presiding.

Present: Senators Cochran, McConnell, Zorinsky, Melcher, Pryor, and Heflin.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. The committee will please come to order.

Today the Agriculture Committee continues its hearings in preparation for writing a new farm bill. The subject of this hearing this morning is cotton.

Cotton is produced in 18 States, but it is actually concentrated heavily in only a few areas. Of the 11 million acres planted in 1984, 3 States accounted for 70 percent. Thus, although cotton ranks fifth among major field crops in value of production, it takes on special importance to the economy of the States where it is grown. In our State, Mississippi, for example, cotton ranks first in crop value.

The Commodity Credit Corporation net outlays for cotton support programs for fiscal years 1982 through 1986 are estimated by the Department of Agriculture to be $4.7 billion, or about 7 percent of total net expenditures for agriculture programs. Annual expenditures vary widely. The highest during this time period was $1.4 billion in fiscal year 1983. The lowest expenditure was $244 million in 1984.

The health of the U.S. cotton industry is highly dependent on world markets because about half of the production must be exported. Exports can and have varied greatly from year to year depending on foreign production and the world economy.

Since the mid-1960's cotton programs have generally reflected the need to be competitive in world markets by relating the Government support price to a moving average of market prices. However, excess supply does occur from time to time. After reaching the recent low of 2.8 million bales in 1984, carryover supply is estimated to be 4.3 million bales this year, and may go even higher next year.

I think the issues that we need to concentrate on as we examine the cotton program are: One, how can U.S. agriculture, in general, and cotton, specifically, be assured of its rightful share of all markets, and two, how can a reasonable profit be returned to producers?

I do not think these are inconsistent goals. We are looking forward to having the benefit of the testimony of witnesses who are scheduled to appear before the committee this morning to help us deal with these complex but very important issues.

I am glad to see Senator Pryor of Arkansas here, a distinguished very influential member of the committee. Senator, do you have any opening comments or statements? You are recognized at this time.

STATEMENT OF HON. DAVID PRYOR, A U.S. SENATOR FROM ARKANSAS

Senator **Pryor**. I might rebut that part about being influential. Mr. Chairman, I may not be able to stay but for a short time.

Today 3 of the 14 witnesses before the Agriculture Committee happen to be from the State of Arkansas. They are all fine and distinguished Arkansans. And I just want to say Mr. Hargrove, Mr. Williams, and Mr. Sanner are not only fine individuals, but close personal friends. I look forward to their testimony this morning.

I do apologize for not being able to stay for most of the hearing this morning.

Thank you, Mr. Chairman. We do look forward to listening to the witnesses.

Senator **Cochran**. Thank you, Senator.

Let us proceed with our opening witness. We have appearing first Samuel B. Hollis, president of the National Cotton Council, Memphis, accompanied by J.F. Barr III, of Oak Ridge, LA, and Sykes Martin of Courtland, AL.

We have copies of your statements which we will include in the record in full,[1] and we would encourage you to make summary comments from those written statements so we can have an opportunity for a discussion with all the witnesses who are scheduled to testify.

You may proceed.

STATEMENTS OF SAMUEL B. HOLLIS, PRESIDENT, MEMPHIS, TN; J.S. BARR III, CHAIRMAN OF THE BOARD, OAK RIDGE, LA; AND SYKES MARTIN, CHAIRMAN, PRODUCER STEERING COMMITTEE, COURTLAND, AL, REPRESENTING NATIONAL COTTON COUNCIL OF AMERICA

Mr. **Hollis**. Thank you, Senator.

I am Samuel Hollis, a cotton warehouseman from Memphis, TN, and currently president of the National Cotton Council.

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[1] See p. 548 for the joint prepared statement of Messrs. Hollis, Barr, and Martin.

As the central organization of the cotton industry, the council represents producers, ginners, seed crushers, warehousemen, merchants, cooperatives, and textile manufacturers in 18 States.

In January, council delegates unanimously adopted a number of resolutions relating to the Government Cotton Program. They essentially favor a market-oriented program that differs very little from the 1981 farm law's cotton title.

Other members of the panel will explain how we arrive at our resolutions and give you some background on several key proposals. But first, I'd like to make a few observations about the economic environment in which our policy resolutions were adopted.

Beginning with the 1966 crop, as Senator Cochran has already referred to, the Government Cotton Program was changed to tie our price support loan to the world market price. This policy was continued through the 1981 act, so that cotton has had a bona fide market-oriented program for almost two decades.

We fared very well under the program through the 1970's, but then began to experience serious problems in the 1980's. What happened in the 1980's?

Two changes have a profound impact. The first is the dollar exchange rate. If you refer to the chart behind me, you will see that the dollar exchange rate index is measured against a cotton trade weighted average of other currencies, that the index since 1980 has increased more than 43 percent. This is not only beginning to affect our export market, but has worsened the problem of cotton textile imports which have been increasing in recent years due in large measure to ineffective enforcement of existing textile agreements.

From 1973 to 1984 the growth rate in cotton textile imports was just over 9 percent annually. From 1980 to 1984 it escalated to just under 16 percent. But last year, the growth rate in cotton textile imports leaped to 29 percent.

To give you an idea of the damage that this has done to cotton's domestic market, look at this chart. In 1984, the domestic market consumed 8.2 million bales. But of this 8.2 million, just a little over 5 million, all U.S. grown, was supplied by U.S. mills. Imports took the rest.

Now let me show you where these recent trends could lead us. If the import growth rate recedes to the long-term growth rate trend of 9 percent, U.S. mills' cotton consumption will be 4.3 million bales in 5 years. If the 16-percent growth rate of 1980–84 continues, the consumption figure will drop to only 2.8 million bales.

But look at the final scenario. If the 1984 trend continues—remember, 29 percent increase—our domestic market will be totally wiped out by imports in 5 years. Ladies and gentlemen, the dollar problem must be addressed if we are to devise a workable farm program.

Now, the other change in cotton's economic environment can be summed up in one word, China. In the late 1970's, the Chinese Government instituted policies aimed at developing self-sufficiency in fiber production and in becoming a major exporter of textiles. They have succeeded on both counts.

In the last 5 years they have increased their cotton production by 176 percent and have about become the No. 2 source of U.S. textile imports. At the same time, they have piled up 18 million bales of stocks. If you look at the next chart, you will see how dramatic this is. A 1,200-percent increase. This is depressing world prices and causing tremendous uncertainty in the marketplace.

This drastic change in the world cotton situation was in no way influenced by U.S. farm policy but was simply the result of action by a central government. Council board chairman, Duke Barr, will discuss the need for separate consideration of this factor when he assesses foreign market competition and its implications for U.S. cotton policy.

Mr. Chairman, the greatly overvalued dollar and the drastic increase of cotton and textile production in China have hindered the effectiveness of the 1981 cotton title. And unless these are dealt with, they will also hinder the effectiveness of any farm bill we pass in 1985.

We hope that this background will be helpful in understanding our recommendations. All segments of our industry have been involved in the final adoption of our resolutions. And, as most of you know, we have a veto process that requires all segments to agree on our final resolutions.

The process is extensive, broad based, and has involved producer leaders from all across the Cotton Belt. To tell you more about that process, I want to introduce the chairman of the National Cotton Council's Producer Steering Committee, Sykes Martin, a producer from Courtland, AL.

Sykes.

Mr. **Martin**. To arrive at our recommendations, discussions began some 18 months ago in the council's producer steering committee, which is composed of a producer delegate from each State, plus the council's five producer directors and elected producer officials.

Because we thought it was essential to secure input from every significant area of the Cotton Belt, we conducted meetings in the major regions, emphasizing producer attendance.

From recommendations heard in these sessions, our committee drew up tenative cotton program proposals. These were then communicated informally to the other six industry segments for their suggestions. After this, the producer steering committee met again to review the suggestions and determine what its final recommendations to council delegates would be.

Our recommendations were submitted to a policy development committee made up of 30 leaders from all seven segments and the four regions of the Cotton Belt, then to the council's board of directors, and finally to the delegate body. These delegates are named from each of the seven industry segments by 91 State, regional, and national cotton organizations. Each of the seven industry segments voting separately must give majority approval to a matter before it can become council policy.

So policy adopted by our organization has extremely broad-based support ranging from cotton producers to textile manufacturers.

Now, to present our key proposals and the reasoning behind them, here is council board chairman, John S. Barr III, a cotton producer from Oak Ridge, LA.

Mr. **Barr**. Thank you. As Mr. Hollis said, cotton has had a market oriented program for nearly 20 years. For the past decade a key element has been the target price deficiency payment system. It protects the farmer when market prices are unduly low, and it averts pressure to raise the price support loan level without regard to market implications.

Two other points should be remembered. Under the current formula, cotton's loan is set at 85 percent of recent market prices and far below production costs. Furthermore, deficiency payments are made only when the farm price is below the target.

In the first 7 years of the target price system, cotton growers received no deficiency payments at all. We feel the target price should be high enough to guard against excessive drops in farm income but not so high that it causes overproduction.

The council is unalterably opposed to payment or price support loan limits. They undercut the effectiveness of acreage reduction programs, both paid and unpaid.

We took USDA data on every cotton farm that participated in any crop program in 1982 and computed the exact amount of production on those farms that would have been affected by different payment limits and deficiency payment rates. Under the present $50,000 limit, farms accounting for 79 percent of the Nation's cotton production participated in one of the 1982 commodity programs.

Most of the other producers were already out of the program because the $50,000 limit made it uneconomical for them to participate. If the payment limit is lowered as proposed, the percentages are overwhelming.

With a $10,000 limit and a 15 cent payment, 82 percent of production would be affected. And with a $20,000 limit and a 10 cent payment, you would still affect 53 percent of cotton production. These percentages would be even higher, of course, if all producers had been included.

Besides a lower payment limit, it has also been proposed to strip producers affected by the limit of the adjustment to the set-aside acreage requirement that they have had for 15 years. This crowning blow would assure that few if any farmers affected by payment limits would participate in the program.

Few people understand that the law provides deficiency payments only when the market price fails to reach the target. Neither are they aware of the costs that are incurred by the farmer in qualifying for the payments.

He not only has to idle a certain amount of land and forego his income from it, but he also has to keep that land from eroding or growing up in weeds. This costs the average farmer about $25 an acre, and all the time his taxes, rent, and interest payments go right on.

If limits on deficiency payments keep him from covering those costs, he has little incentive to participate in the Acreage Reduction Program. Instead he plants all his acreage. And the intent of the program is then undercut. Extra production means lower market prices for all producers regardless of whether or not they participate.

With low participation, it takes a larger percentage of acreage reduction to balance supply with demand, and this in turn drives even more growers out of the program. The end result of low payment limits is an Acreage Reduction Program that simply doesn't work effectively.

In the same way, limiting price support loans makes program participation unattractive to medium and larger growers, and it drives an even greater percentage of participators' crops into the loan.

We suggest one modification to the current Acreage Reduction Program. The present method of making deficiency payments on the basis of acreage actually planted gives the grower an incentive to plant the maximum allowed under an Acreage Production Program. Otherwise, he might plant less.

For this reason we propose basing payments on permitted acreage rather than on planted acreage and setting the diversion at a percentage of base acres rather than planted acres. This will allow participating farmers then to base their planting decisions on market forces instead of the program.

In other highly important farm policy areas, the council supports continuation of the present market oriented method for determining the cotton loan rate. It has served both our industry and national interests well.

As President Hollis pointed out, beginning with the 1966 crop, Congress changed the basis of cotton price support loan formula from a percentage of parity to no more than 90 percent of the estimated average world market price. The immediate effect was a 28 percent reduction in cotton's loan level.

That system continued through the years and was refined in 1978 when the current formula was established at the industry's request. It set the loan at either 85 percent of the average spot market price for the last five seasons or at 90 percent of the average world price for the most recent, are 15 weeks, whichever is lower. It also set a loan floor of 48 cents, which eventually was raised to 55 cents.

Now I should add at this point that our cotton growers are somewhat divided on their opinions on the loan floor, and I think you will be able to discern that later on in the testimony today. When cotton's loan was based on a percentage of parity, the market price stayed only 1 or 2 cents above it.

But in the 18 years of a world price related loan, our market price has seldom dipped even close to the loan, but has actually averaged 15.25 cents above it. In short, the loan level had little or no effect on cotton markets price.

The United States as the largest exporter of cotton tends to be the world price setter. So if our price support loan had been too high, our foreign competitors could have been encouraged to grow more cotton, and this would cut into our exports as well as our share of the world market.

But this did not happen, under the market-oriented loan our exports have increased substantially and our market share has grown from a fifth to nearly a third. Except in China, foreign cotton acreage has not changed significantly. Increased yields have pushed production up, but it still falls short of consumption in countries other than China. U.S. exports have supplied the difference.

As Mr. Hollis mentioned earlier, our farm policy has little or no influence on what China does.

Now, how has the loan affected the U.S. grower? Has it made him produce excessively? From 1974 to 1981 when the loan was the only income support mechanism, for U.S. growers, acreage responded to market prices quite well. And in those years market prices were not closely related to the loan. Plantings under acreage reduction programs of 1982, 1983, and 1984 were less than permitted. So obviously the loan level had little impact on recent domestic acreage.

Does the market price create excessive costs? Government records show the Government incurred large costs from 1965 to 1970 as it disposed of 12.3 million bales that accumulated under the earlier high loan programs.

But once those stocks were gone, the Government actually had a net profit in 8 of the next 14 years. Over those 14 years its net loss was only $11.4 million.

Under the market oriented loan of the last 19 seasons then, U.S. cotton exports have increased both in volume and in share of world markets, foreign cotton acreage outside China has been static, U.S. acreage has responded both up and down to market prices, and Government costs have been minimal.

For those reasons we see no point in changing the loan program.

We do not want to leave the impression, however, that there are no trouble spots on the horizon for U.S. cotton exports.

The most threatening, as Mr. Hollis indicated earlier, is China which is on her way to becoming a major raw cotton exporter in addition to her already established position as a leading textile exporter. Already her huge stock buildup is seriously depressing world cotton prices. Next season we fear she will cut heavily into our export markets.

The Cotton Loan Program, however, cannot correct this situation. Some might argue that we need a lower loan rate because foreign growths are starting to undercut us seriously in price. But the high value of the dollar is what is causing production increases this season in some foreign exporting countries.

Cotton, of course, is sold in dollars throughout the world, and with the dollar rising, foreign producers can get a lot more rupees or pesos for their cotton, even at a lower dollar price than they received earlier.

How can we compete in this situation? The truth is that no Government cotton program can be devised to make us fully competitive under these economic conditions. But reducing the loan to levels proposed by the administration and others will likely bankrupt the U.S. cotton farmer and do little if anything to discourage his foreign competition.

The cotton industry is committed to making its fiber available to both its domestic and overseas customers at the same price. Export subsidies, incentives, or bonuses must not give foreign processors an unfair advantage over our domestic manufacturers.

Our domestic textile customers already are being overwhelmed by textile imports drawn in by the strong U.S. dollar. If an export subsidy gave foreigners an additional edge, the domestic industry simply could not survive.

Cotton is in a unique position in this regard. No other major program commodity is as dependent on exports yet at the same time faces fierce competition from processed imports. Textile imports are now supplying 37 percent of our domestic cotton use, and 80 percent of the cotton in those imports is foreign grown cotton.

This is not only driving down U.S. growers' prices and shrinking their markets, but it's also saddling our Government with higher cotton program costs. If a subsidy is to be offered in the export market, it should be made to domestic cotton processors as well.

Thank you, Mr. Chairman, for the opportunity to be here today. We'll be glad to answer any questions.

Senator COCHRAN. Thank you very much, Mr. Barr. We appreciate the testimony of representatives of the National Cotton Council. This organization has always been very helpful as the committee has tried to understand the problem that faces the cotton industry. It's unlike any other agricultural organization that I know about in the way it helps get all segments of the industry involved in the decisionmaking process. It's unique in that regard.

There are two critical problems that you identify, as I understand it. One is the disparity in the value of the dollar as related to foreign currency and the impact that it is having on our ability to sell in overseas markets. The other is the dramatic increase in production in China and the threat that that poses as far as their dominating the world market for both raw cotton and finished products.

I led a delegation to China about 3 years ago and, at that time, they were beginning to reduce their purchases from the United States. They were diversifying at that point, buying from Sudan, Mexico, and other countries. The signs were clear there that they were going to cease being dependent upon anybody for cotton. They were going to import wheat, corn, some other things in the agricultural area, but not cotton any more.

I do not know whether that was a decision directly related to our policy on trying to impose strict quotas on textile imports or not, or whether it was just a decision based on what was economically best for them at that time given their ability to compete and produce. I do not know the answer to that.

What, if anything, do you recommend that we do to make that situation less threatening? What policies could we urge the administration to adopt and implement that would provide relief from that problem?

Mr. HOLLIS. Do you want me to try that one? You're referring, Senator, to their overproduction or textile imports?

Senator COCHRAN. I'm referring to the behavior of China and their obvious intent to dominate the cotton industry, both in the production of raw cotton and in the production of textiles to sell to the world at prices cheaper than anybody else can produce and sell. To me it looks like they're getting locks on the industry on both sides.

What kind of policies should we therefore urge the administration to adopt that would make it a brighter future for the U.S. cotton industry?

Mr. Hollis. Let me tackle the raw cotton side first. You know, it will be impossible for our cotton production to compete when you've got people with an average income of $300 a year producing cotton. So there's nothing we can do directly. But we feel in a free market our cotton producers can beat anybody in the world. The problem there is the dollar differential.

In our present testimony we use Australia as an example. In a free market it is easier to tackle because you have a simple comparison of what a cotton producer can make in terms of his dollars and compete in the world market compared to ours when you compare the currency differential between the United States and Australia.

China, I think, on the raw cotton side is tough to deal with. You have got a central government that says produce, we will pay you 81 cents and give you free fertilizer and all the subsidies they can do for their cotton producers. So that is a tough one.

We do think on the textile—well, let me also answer this way. The hope of all of us is that as China becomes more of a consuming nation, there is not much control we have over there. But you've been there, and I have too, and seen change from the uniforms to more style, more clothing, and a more consumer-oriented nation. And that we hope will consume more of their production internally rather than it being dumped on the world market.

China's policy on the textile side is very apparent that they want to provide value added to the world and produce textile and other manufactured goods.

The dramatic increase we have seen in imports which affects everyone and gives the cotton industry in effect a double whammy. We're getting hit from chief textile imports coming in, which are now replacing 3 million bales that our producers could sell, as well as the problem of not being able to compete in the world market.

We have several ideas on the textile import side. First and foremost again is the dollar problem that needs to be addressed. We feel strongly in this, that we feel we need a bipartisan commission to tackle the dollar problem. Because this is No. 1. The 43-percent currency differential in 4 years, this is the most dramatic.

We think there is some immediate and some possible, you might call band-aid approaches, but we are not really talking about something we have a lot of time to deal with when you talk about the entire textile industry. It depends on how you look at, 2 to 4 million jobs going out of business within 4½ years, this is a crisis.

So we say that our need for which these things can be tackled, you can have an immediate surcharge on imports to say indeed there are excessives that are going on that can be handled temporarily through import surcharges.

We are not convinced that the existing agreements that are in effect are being enforced. We think any action should be taken on S. 680 which provides for enforcement of agreements and treaties we already have in place, it provides for approximately a 6 percent increase in textile imports, instead of the 29-percent increase in the last four quarters.

So obviously what we have got in place is not working. We feel that there are opportunities for the administration to take some immediate action. Because we can spend all year working on a farm bill and hopefully passing one, but it will not go into effect until next market year. We have lost another year at the rate of the 29-percent increase in imports, close to the demise of the domestic textile industry.

I hope that I answered your question.

Senator COCHRAN. You have responded to my question.

Mr. HOLLIS. I wish we did have the answer, Senator. I wish we knew exactly what to do.

Senator COCHRAN. The reason I asked the question in the way I did is that you cite the two most critical problems facing the cotton industry and both of them are something this committee cannot do anything about.

We can contribute to a deficit reduction and do our part as a department of the Government, through the Department of Agriculture, to reduce spending some.

The Department estimates that if we continue with the kind of cotton agriculture support programs that we have, that we will spend at least $15 million each year over the next few years. I do not know whether those figures are right or not, but those are the estimates they give us.

In that connection, what is the cost to the Government, do you think, of the program you are recommending that the committee implement for cotton?

Mr. BARR. We address the average cost over a period of several years, Senator. I think that looking at history, it generally does tend to repeat itself. The administration has in essence drawn a line which goes continually up on farm appropriations as they stand right now. Economic things change, as I am sure they will. I think we are looking at high numbers right there, the highest end of what it will cost.

I think as market forces begin to take place and other things happen in the world, it will trend back down. Being able to put a specific figure on it, I can't do that.

Senator COCHRAN. Do You think from the deficit reduction challenge that we all face that this proposal is a responsible proposal from a fiscal standpoint?

Mr. HOLLIS. May I just add one thing to that, Senator, that I think—I know you know an awful lot of people do not recognize that out of the total production, the portion that goes to farmers or commodity problems is only about a little less than 1½ percent of the total that goes to the programs for the farms. I think many people overlook that point.

Mr. BARR. Senator, if I might just expand on one thing in terms of the Chinese situation, we have approached the problem every way we know how. We've approached the administration and they have come forward, they have done a little to at least slow down some of the shipment of the textiles through countries that do not have quotas.

I think in the near future we will probably request a section 22 action asking relief. We feel the import thing does indeed jeopardize the farm program per se and certainly runs up Government cost.

But in terms of what you can do, I think that we still as a country, as cotton producers, could have a world market out there for our product, U.S. cotton. I think that certainly we have been successful in selling that product to countries in which China will come to have an advantage just simply because they have a proximity there.

A big part of the farm bill, as I understand it, will be an export title. I certainly hope it will be. Another part of it within that too, we are going to need export credits. We have been successful in keeping our markets in Japan and particularly in Korea and the Asian countries with export credit.

So, I think one of the tasks we would beg of you to make sure these credit titles in the bills that the administration is given the tools in that bill to aggressively address our farm policies.

Senator **Cochran**. Those are good points to be made. There's one question I really want to ask, and this is my last question.

I wonder if you are familiar with a proposal that is being referred to as a marketing loan program. This proposal involves a nonrecourse CCC loan just as in the current price support program, with repayment that would be at the lower of either the loan or the world price.

The objective of this program is to make our farm products competitive in all market, domestic and international. It would be an effort to neutralize subsidies from abroad, but would also allow for overvaluation of the U.S. dollar.

It would eliminate benefits that were accrued to producers who remain outside the Federal programs to avoid acreage reduction requirements, thereby making supply adjustment efforts more effective.

I wonder what your reaction to this marketing loan proposal would be, and whether or not you think that it could be incorporated in a farm bill as an acceptable alternative to some of the current proposals?

Mr. **Barr**. Well, first of all, we are familiar with the proposal. Although there are a lot of questions which remain in our minds, I might say that our producer groups have had access to this concept before we held our hearings in the country. Sykes, I think you will back me up on this. There has not been a lot of enthusiasm for this program among cotton producers.

You said it would be nonrecourse. I think the question has arisen would it actually be recourse or nonrecourse. The next question I think would be at what level? When you see figures on the thing, I think things begin to jump out at you.

The other big question is would this involve loan limits or payment limits, exposure limits I guess they might be called, in the program. I think once those questions were answered, then we might be able to look at it more seriously.

Senator **Cochran**. Thank you very much. Senator Heflin.

Senator **Heflin**. Following up on that question, instead of it being an alternate method, if it were an additional method and on a pilot program basis in some commodity for some limited period of time to see whether it worked, you would have your regular loan program and then this market oriented loan program, as Senator Cochran has described. There would be a choice.

Do you have any thoughts relative to that program?

Mr. MARTIN. Senator, as a producer I would have to say any additional options produced on cotton would certainly be appreciated.

Senator HEFLIN. I'd like to follow up a little bit on this China situation. Production of cotton in an area that takes it on as the new tax, there are certain investments that have to be made that you have to look at from a long-range basis, for example cotton, as a matter of cotton gins. That's a structure that's now being put in place in China.

I am sorry, I didn't get here in time to hear all the testimony. But last year what was the production in bales of cotton in China?

Mr. HOLLIS. Approximately 27 million bales.

Senator HEFLIN. 27 million bales in China. What was the U.S. production?

Mr. HOLLIS. A little over 13 million.

Senator HEFLIN. If I remember right, some 4, 5, or 6 years ago we actually sold to China 2 million bales of cotton. At that time what was China's production of bales of cotton?

Mr. HOLLIS. About 9 million. They've gone from approximately 9 million bales some 5 years ago, if I am not mistaken, to 27. They have tripled their production in about 5 years.

Senator HEFLIN. Now, if you have a crystal ball that you can give us some idea of what you might anticipate that they could go to in the next 4 years?

Mr. HOLLIS. Senator, I do not know that we could quantify it. But there are some changes that are going on in China. For instance, their policy in 1979 was changed. What caused the big increase in production, they had a quota system for the farmers and they told the farmer—not on cotton but on other commodities—once he made the quota and then a fixed price, once he made a quota, he could keep the product above the quota and sell it at the fixed price and keep the money.

So my statement is the farmers are the same world over. You give a farmer the incentive to produce, he is going to produce. That's exactly what happened with the farmers in China. They have changed that just recently so that above the quota the farmer must accept the world price. So they put a little bit of a disincentive on overproduction.

They've got a problem. As you mentioned, they have approximately 18 million bales in their stocks right now. But we estimate that they will only export about a million this year because of this infrastructure problem that you mentioned. Their product is a bale about the size of a hay bale, 200 pounds. They have problems with transportation and some problems with quality and damage.

To answer your question, the central government, they can just about do whatever they want to do, particularly with cheap labor and given farm incentives. But we do see a little glimmer of hope about the change in the price above the quota, that we do not see the production quite as much, mainly because they aren't getting the foreign exchange that they want out of raw cotton. They are getting it out of the exports, out of the finished goods.

Senator HEFLIN. Well, the cotton gins that they have put into place, are they basically modern cotton gins?

Mr. HOLLIS. We understand they are going to buy gins from American companies that will produce bales the same as ours.

Mr. **Barr**. That's new. Before they made these purchases, and probably since they made them, I think most of it was hand ginned.

Senator **Heflin**. Well, if they bring in the type of gin that Sykes Martin has got, they may be even more competitive.

Mr. **Hollis**. That's true.

Senator **Heflin**. I want to ask him a little bit about that, because I think that has some material bearing on the future. Now, on the textiles in China, I believe about 5 years ago when we were doing this, they were buying from us 2 million bales of cotton for that textile industry.

Has their textile industry changed substantially in the past 5 years?

Mr. **Hollis**. Well, they have changed in several respects, I guess. Once, again, a central government can tell them what raw materials to use.

When I was in China, I went to one of the places, and it was 78 percent polyester, which seemed kind of ridiculous with all the cotton. This was just last fall.

The answer was to my question why 78 percent polyester is because they built the big polyester plant and had excess polyester and the politicians made the decision to have the polyester plant, that it was to have a market. What we found, more market on a higher percent of cotton.

So, to answer your question, we hear that the textile industry over there still likes American cotton because one of the advantages is that our producers and ginners and merchants have been able to export a dependable source, not only of delivery time, but of quantity and quality. This is where we are still competitive, because the Japanese are very upset because they can't get the cotton delivered on time from China. We Still have that angle.

But the textile industry in China, that's a national policy to continue to produce cheap textiles to export and create foreign exchange.

Senator **Heflin**. Going into new and different types of textiles from what they formerly did, as I understand, up until a few years ago they had textiles that was largely the thick woven type textile. But they have now gone into almost every other form of textile.

Do they have a wide diversified modern textile and large textile industry that we have not previously seen?

Mr. **Hollis**. We understand that they can produce almost any quality they want to produce. They are very competitive.

Senator **Heflin**. The point I am getting to is it seems that the policy and the decisionmakers in China, that they have at this time somewhat targeted textiles and cotton as an area that they are going to concentrate on. There could be the danger that they could corner the market of the world, both in textile and in cotton production if that policy decision were contingent.

You mentioned the problems of the textile industry and the loss of jobs in America. It has somewhat of the appearance that this has been a selective area that has been picked out to concentrate their energies and their efforts in agriculture and also manufacture. Is that——

Mr. **Hollis**. I think that's a fair statement. The apparent trend in the last 25 years in Third World countries because textiles can be fairly easy entry business for Third World countries to get into it. But, you know, a lot of growth of South Korea, Taiwan, their growth has been through production of textiles, and Japan, which is a little more industrialized of course.

Senator **Heflin**. Some people think that this is what occurred, has occurred, in poultry and eggs with France, that they have selected that area, agriculture economy, to concentrate on and as a result, they are subsidizing exports in those fields that changed France from being a country that imported poultry and eggs 5 or 6 years ago now to where it is their leading export.

I do not know if there is any similarity in regard to the policy and decisions that have been made in China pertaining to cotton. But it is something that certainly bears investigation. It ought to be considered certainly, as we determine policy on farm legislation.

I would like to ask Mr. Martin. Mr. Martin invested a lot of money. I do not know whether many farmers can do it in a new, very modern cotton gin, in the cotton compressing and ginning cotton, and that sort of thing.

Would you tell us a little about what you have done on that and what the effect has been.

Mr. **Martin**. Senator, we invested approximately $2.7 million in 1982 in the building of a company called Servco Gin Corp. As a result of that, our gins have gone up from approximately 12,800 to over 20,000 acres this year.

We have contracted and we may get—we will have, I think—about 24,000 acres contracted. It's allowed us to be much more efficient. We have many economies of scale and we have been—we are doing well financially with it.

We feel like we have been able to give the producers a very, very good product. We give them good service. We have so much volume we can cut our overhead cost per bale. It's been a very good move for us. We're very pleased.

Senator **Heflin**. What does this gin do that former gins couldn't do?

Mr. **Martin**. Well, there is nothing unique about this gin except it is all new. It has a dense bale, but that's not something unique.

Senator **Heflin**. Well, now you are talking about this, you are serving a community of many farmers? How many farmers do you serve?

Mr. **Martin**. We serve approximately 30 farmers I would think. But we bring cotton in up to 70 miles with the new module developed by Cotton Inc.

Senator **Heflin**. One thing we are interested in endeavoring to try to emphasis is increase research designed to reduce the cost of production. We have had testimony that the research going on right now as to the various types of plants that can be disease resistant, can be insect resistant and things of this sort.

In the production of cotton you spend a substantial sum of money yearly on the boll weavils and other insects and diseases. If that could be substantially reduced, as well as disease resistant cotton produced, could this be of help to the cotton farmers overall?

Mr. **MARTIN**. Of course we would much rather have our profits from the marketplace. One way to do that is reduce our cost of production by making us more efficient.

Senator **HEFLIN**. I would like to just ask any of the groups here, we are talking about exports, and back maybe to this issue of China a little bit. I think, Mr. Hollis, that I understood you to say that 37 percent of the cotton that is used by the textile business in the United States are imports? Was that your testimony? I might have misunderstood you.

Mr. **HOLLIS**. Thirty-seven percent of the domestic markets are supplied by imports. Retail account, in other words at the retail level, consumption. In other words, we say 8.2 million bale total cotton consumption, we know that cross is the retailers.

Senator **HEFLIN**. And that is how much import coming into the United States?

Mr. **HOLLIS**. Thirty-seven percent.

Senator **HEFLIN**. All right. Now, if that's 37 percent of 8.2 how many——

Mr. **HOLLIS**. A little under 3 million bales.

Senator **HEFLIN**. You mentioned an import surcharge coming into this country. If there is retaliatory action in certain other places, the export market that cotton has, would you suffer from retaliatory action if you have some type of an import surcharge or market access?

Mr. **HOLLIS**. Of course this is a risk that we have dealt with. We are convinced that countries buy just like you and I buy, where they can get the best quality at the best price. In the past what has happened is it has really been a dislocation of product. In other words, if one country decides whether they are going to retaliate and buy their wheat or cotton from another country, there is a certain amount of wheat or cotton in the total world market.

If production of one country then shifts and goes to replace another, there is a vacuum left in the demand. You do not have worldwide perception. The demand is there.

But we are convinced that China, for instance, has acted out of desire to buy the cheapest product. Senator Cochran observed that earlier, really in a form of a question in his opening statement, worried about retaliatory action. We are convinced that countries act just like individuals, they buy the best product at the best price.

Senator **HEFLIN**. Well, you mentioned that China was selling a lot of their cotton to the Pacific perimeter, around in that area, where the chief of transportation is. One of our big efforts over the years has been to try to encourage Korea to buy. As a result of certain export credit guarantees, we have had to maintain the goods market in Korea.

I do not know whether some of the countries that buy from us that we sell to, whether they would in effect retaliate or whether the retaliation comes from a totalitarian government that is a competitor.

I suppose all these things, of course, no one can answer. Let me ask you a little bit about the effort credit you mentioned. You indicated that this ought to be aggressively pursued. Are there any other tools to increase export markets that you would advocate that be included in a farm bill?

Mr. HOLLIS. I would like to refer to Duke Barr. Duke is on the export commission.

Mr. BARR. Senator Heflin, the export commission report is due March 31, and it will be delivered early next week. In that whole area we have reviewed a number of ways.

First of all, the Government has got to decide they want to do it. Then they have got to provide the tools to do it. Credit certainly has been one of the strongest tools that we found in the neighborhood of certain exports.

But then you have all kind of complications all the sudden that tend to jump up in your face. Just about the time you push in here, something pops out over there. So I think along this line we have all our GSM 102 and our programs are going to be jeopardized.

I think one of the recommendations of that commission is certainly going to be if this must exist, we think it should be done on its own merits. If the industry is going to be outlayed, it should be not involved in agricultural proposals.

Senator HEFLIN. Senator Cochran and I put into a bill some provisions pertaining to additional money, some $2 million for the GSM 102 program, the Export Guarantee Credit Program. I know when Secretary Block testified I asked him to give us some figures on how much of that had been used.

I hear that it is not a great deal of that has been used. It's where a tool was given and funds appropriated for that purpose. Of course, actually that program really from cotton's viewpoint, I understand it has never cost a cent because it is always been paid back. But I would think from the National Cotton Council's viewpoint that you might want to build a fire under the Department of Agriculture as to the use of that fund for the remaining part of this fiscal year.

One other thing. There is pending, as you know, a tax simplification bill that could have some effects on various farmers. I know that we do not have time to get into the details of all this, but I have extended an invitation to all other farm organizations if they would give us their thoughts pertaining to certain aspects, certain allowable deductions in a tax simplification program that should be continued, the rationale for it, and the various approaches to give us some sort of idea of the various segment of the cotton industry as to any tax simplification, there may be an effect on a small farmer, midsize, corporate farmers, other things.

I would invite you to furnish us with any information on that. We're not the tax writing committee. But nevertheless, the overall effect of a proposal which has a tremendous amount of support and which probably may be passed with, of course, change from present tax simplification proposal. Nevertheless, I think it is wise for us to bear this in mind as to see how the income profit of farmers will fair under a tax out years from now.

Mr. BARR. I commend you on those questions. I will say testifying for the council itself right now, we haven't reviewed the thing and come to any sound conclusions in terms of what has been the effect on farms in this country.

However, I think I would suggest from a personal point of view that I would take issue with many of the approaches that have been suggested.

First of all, I think it is the contention of many people that agriculture has an overabundance at this point in time. I would say to you that I would disagree with that. Perhaps our plant is too big and some of it needs to be shut down.

But if it is going to provide for a long time, we are going to find a way to put additional capital into it. I think the plan, as put forth right now, will certainly be detrimental to doing that.

Right now the fiscal policy of this country is one that rewards the quitter. If I had a pile of money, it would be much easier for me to put it in a hundred thousand dollars instruments in another bank, draw interest on it, and pay taxes on that, and not have any risk.

There are many people in agriculture right now that want to sell out, but there are no buyers. You are going to have to find a way to get the money out of those CD's and encourage people to take some risk. It looks to me like a tax writeoff is the only way to do it.

Senator **Heflin**. Thank you.

Senator **Cochran**. Senator Melcher.

Senator **Melcher**. I believe it is you, Mr. Barr, that said we ought to have the President appoint a bipartisan commission to recommend a basis to reduce the Federal deficit with sound fiscal policy and that you belief this is the only way the dollar problem can be remedied. Do you believe the budget ought to be cut?

Mr. **Barr**. There are lots of ways to balance the budget. I didn't intend to address that, but certainly you can cut spending or produce additional revenue. I would suggest to you that perhaps one way you might be able to help the situation is just do some reasonable accounting. The Government is one of the few places where a note receivable is an expenditure.

Senator **Melcher**. I quarrel with that bookkeeping method myself. Everybody else calls it an asset, but we do not seem to.

One of the biggest problems we have on the budget though is the President's viewpoint that heavy spending and heavy deficits occur only because they are coming by majority vote.

But I believe the figures show in the 4 years of the Reagan administration Congress did cut the President's spending $2 billion, which isn't as good as it should be. But in a sense we have already have this bipartisan commission. It wasn't appointed. It is elected by the people, it is called Congress.

The real question is how much are we going to cut spending? How much defense spending is going to be cut? Are we going to freeze domestic spending, or are we going to freeze defense spending to the same level? That seems to be the argument.

If we are going to freeze, we ought to freeze defense in the same way. What would be your advice? Ordinarily I wouldn't ask this question of the Cotton Council or the Corn Growers, Wheat Growers, and dairy people, but I think this question is relevant now.

There is no use testifying about the dollar in relationship to the value of other currencies unless you are willing to say where you make the cut. Are you willing to freeze domestic spending at 1985 levels?

Mr. HOLLIS. May I speak to that? Two points I would make, one I made earlier. That is that the commodity portion of the agricultural budget is only about 1½ percent of the total budget. We are being asked under the present proposal we have seen to take a 20 percent cut.

Our proposal would be, we have the deficit, we want to participate in that, but we want to participate in a fair basis, not be targeted. Agriculture products are approximately 28 percent of the gross national product. So we think that we deserve some attention as far as what our contribution to jobs and GNP is and not be asked to take a disproportionate cut when it comes to the budget cut.

Senator MELCHER. When you are to the 20-percent cut, what are you referring to? The administration?

Mr. HOLLIS. Yes.

Senator MELCHER. I do not think that is on this table any more.

Mr. BARR. Are you looking for an opinion on defense by itself?

Senator MELCHER. It is not defense by itself. But after all, $300 billion is a lot of money and a big chunk of that budget.

There is Social Security and there is Medicare. By the way, Medicare people are reporting that some commission study shows that Medicare looks in pretty good shape.

Three hundred billion dollars is a lot of dough but that is what the defense would be if we do not freeze it.

Mr. BARR. I do not think you would have any problem. First of all, it is not the cotton people, but the rural people as a whole who have a background of being very patriotic people. I think that they see the dollar situation as it is, the deficit situation as it is, that we are in an economic crisis in America.

There are a lot of them that are not willing to take any action, painful as it is, provided that everybody else takes it. I would suggest in terms of farm programs that we have been on hold for 2 years already. We froze our prices at last year's level.

But I do not think you would have any problem getting any support under the circumstances. But I think I might add, too, that I think the responsibility also is to continue to look at items that would increase income. I do not single out taxes there.

You mentioned a surcharge earlier. I think the fact that we have got a tremendous deficit in trade in the United States, forecast to be $130 billion, that is just a part of that deficit, you have the taxpaying industries in the United States producing more money than the Government.

Senator MELCHER. I think you are correct. On trade, you do not seem to mention reciprocal agreements anymore, but I think they are available to us.

Are there not quite a few countries that would prefer to buy from the United States on the basis of reciprocal agreement than they would, for instance, from China?

Mr. BARR. I think it is a point that needs to be looked at.

Senator MELCHER. Has your trade commission looked at it for thought?

Mr. BARR. I think not specifically by the entity of cotton. They are certainly looking at reciprocity in terms of the overall picture.

I do not think you will find a conclusion on that in the March 31 report.

But I feel sure you will probably have recommendations regarding that in the report of May 6.

Senator **Melcher**. It seems to me that in the current circumstances that if we can make some reciprocal agreement, it would be beneficial where the current impact of the strong dollar would be nullified based just on the reciprocity.

Thank you.

Senator **Cochran**. Mr. Zorinsky.

Senator **Zorinsky**. I ask that my statement be included in the record.[1] I have no questions.

Senator **Cochran**. That is so ordered.

We appreciate your being here. You did a good job before the committee.

We have a lot of witnesses. We are going to ask that we group them in panels, beginning with the next group.

Mr. **Barr**. I just might say as we leave here that we are aware that some of you are already in line with the Textile Trade Enforcement Act, which is before you in the Senate, and we certainly would like to commend you and Senator Heflin. We appreciate that.

Senator **Cochran**. Thank you for being here.

The next group we would like to call before the committee will include Nicky Hargrove, president of the Arkansas Farm Bureau, who is representing the American Farm Bureau from Little Rock, and Peter Diffly, president of the American Cotton Shippers Association, from Alabama. Mr. Diffly has others who will accompany him: Ben Baer, Dewell Gandy, and Neal Gillen. The other witness is Daniel K. Frierson, president of Dixie Yarns, Inc., Chatanooga, TN, who is representing the American Textile Manufacturers.

In order to accommodate all the witnesses who responded to supply testimony to this hearing, we are going to have to limit the presentations to 5 minutes for each witness. We hope you can stay within that 5 minutes when you make your presentation.

We have your statements. We will include them in the record in full, which will appear in the appendix. This will give us all a chance to have a dialog and to have a discussion of your presentation.

Mr. Hargrove you may proceed.

STATEMENT OF NICKY HARGROVE, PRESIDENT, ARKANSAS FARM BUREAU, LITTLE ROCK, AR, REPRESENTING THE AMERICAN FARM BUREAU FEDERATION

Mr. **Hargrove**. Thank you, Mr. Chairman, members of the committee, I am Nicky Hargrove, president of the Arkansas Farm Bureau and representing the American Farm Bureau. I appreciate the opportunity to talk with you briefly for a few minutes.[2]

We have discussed at this point what our colleagues are facing in the cotton industry. In the beginning, we talked about the competition of the People's Republic of China. We have seen what some of the domestic incentive programs have done there in the last few years, increasing production from under 10 million to over 25 million bales a year in just a very few years.

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[1] See p. 547 for the prepared statment of Senator Zorinsky.

[2] See p. 558 for the prepared statement of Mr. Hargrove.

There are problems within the agricultural industry. We think there can be some changes made in major farm policy that can bring about a positive effect on agricultural income and on the agricultural economy.

As a result of this, the Farm Bureau has a proposal that we will be presenting to you. Let me just highlight, if I could, just one or two areas from the proposal.

One, loan rates, we would propose that we continue the present system of loan rates. We think it has served the industry well. The only thing we would suggest is that in no time would loan rates adjust by more than 10 percent in any one year. I think the excess of that would be rather a drastic shock.

We think what we have done in the industry with the market loan levels that we have utilized, we sent a signal to a lot of the other production nations of the world that we are no longer not going to provide them long-term support prices for their production. We need to make their programs more costly, we need to make it hurt them a little bit.

We think we are doing this through the present loan rates. We support the continued use of efficiency payments and income supplement. We think that these should be set at 110 percent for the same 5-year extra loan that is used in determining the loan rate rates for cotton. At the same time, we think these should adjust by no more than 5 percent in any one given year.

Target price system does provide a supplement, it does maintain income levels really for program participants. It does give us an opportunity. It buys us a little time to address the problem, to address the real problems of expanding our exports and getting back into our world share of the market.

We think these issues must be confronted. They must be confronted strongly and very much up front. In the area in which substantial improvement in farm income and agricultural profitability has to lie in the area of exports. So, we have placed a great deal of emphasis upon export title in our farm proposal.

A lot of additional ways have been used, given very briefly. We know what they are. We think we need to expand the CCC export credits, and the Public Law 480, the Food for Peace Program.

We very much regret that the export credits, the revolving export credits, that are provided for in the 1981 farm bill have not been implemented. We think it is vital that we maintain this in the new farm bill. We think it is important this area be funded.

We do need to continue the Export Credit Program. An area that has been addressed earlier that I would have to put emphasis on is the exemption from reference. We strongly support this exemption. In fact, we think all agricultural commodities, whether it be private sale or Government helped sales, should be exempt.

I think the real key to our proposal would be the fact that we have got to give our trade negotiators something to work with. To do this, we would propose an Export Bonus Program. I wish I had time to go into it. I think it is rather unique, and I think it is rather innovative. I would ask your consideration of this proposal in depth at a later date.

Basically, what we would do, we would use foreign commodities from CCC Stocks as an expert bonus to those nations that are doing business with us. We think this is an area that can be done actually with no net cost to the Government.

Because, if you take into consideration what it costs to store and handle a bale of cotton or bushel of wheat, or any other commodity, in a year's time we can actually save money with this type of approach.

At the same time we can send a signal to the rest of the world that we are no longer going to be passive when we are talking about trade because we are going to have to tell the rest of the world that, you know, we have been down in the trade war for about the last 5 years, that is everybody in the world but us. We have not been a participant in it. I think it is time we send a message to the rest of the world.

We would ask for acreage reduction programs. One key here would be a trigger level. Any time stocks exceeded a certain spot level, we would automatically trigger an Acreage Reduction Program. At the same time that we would automatically trigger an Export Bonus Program.

There are many other provisions of our proposal, and we will have an opportunity to discuss them with you later. But I think this basically is it at this point, sir.

I thank you you and the committee for your consideration. And we will be glad to work with you in any way we can.

Senator COCHRAN. Thank you, Mr. Hargrove.

Mr. Diffly.

STATEMENT OF PETER F. DIFFLY, PRESIDENT, AMERICAN COTTON SHIPPERS ASSOCIATION, ACCOMPANIED BY DEWELL R. GANDY, ECONOMIST, AND NEAL P. GILLEN, VICE PRESIDENT AND GENERAL COUNSEL

Mr. DIFFLY. Mr. Chairman, with me today are Dewell Gandy from Memphis, and Neal Gillen, counsel from Washington.[1] There are two things——

Senator COCHRAN. Pull the mike a little bit closer to you.

Mr. DIFFLY. There are two things we want to impress on you. They are the current situation and some of the changes in legislation. I think as mentioned by the council, we must keep in mind the world situation.

There are 74 cotton producing countries, and 14 of these countries produce 90 percent of the cotton. Under our program two years ago we had a 2.8 carry over. This is after the PIK Program. This year we expect it to increase to 4.2 at the end of the current season. We look in the summer of 1986 for it to be 5.5 million bales.

In this bleak atmosphere, we have increased our loan rate for this year 2.3 cents. I am more domestic oriented than others, I would say, and I am pretty close to the domestic mills. I have been in the business for 37 years, and I think they are in the worst shape they have ever been in.

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[1] See p. 560 for the prepared statement of Mr. Diffly.

We have a consumption forecast of 5.2 million. We also have lost jobs. The Department of Labor has shown us in the last 4 months in the Southeast we have lost 29,000 jobs. This has a terrible effect on these small towns.

Should imports continue, many millions will be lost. We cannot support an industry that is dependent solely on exports.

On the second page of my report there is a chart. I would like for you to know that in the PIK Program we had 7.9 million carry over. That is going back to 1982. But the key I think, as mentioned by the council, is at the bottom line of the chart. Our carry over has been 39, 37, 38 percent, somewhat of a 3- or 4-month supply.

However, at the end of this season, this summer, we have 57 percent of the world annual cotton consumption. Again, it is mainly in China. These programs continue to cost at high levels and reduce our share of the export market. To resolve these problems cotton should be at a price level that will assure consumption without adversely affecting the income level of the U.S. producers and at minimum cost to the Government.

Some of our changes, first we must do away with the minimum loan concept. We must have no minimum loan. How do we do that? That is we have a choice. The lower of 75 percent of the world price, or 75 percent of the average price in the United States.

As I mentioned earlier, the Republic of China, their big stocks are going to the Far East. The Far East in the past 10 years has consumed 80 percent of the U.S. cotton exports.

The third thing that I would like to mention about the loan level is the terms of the loan. We think that the loans should be 10 months nonrecourse and then have a change in the 8-month extension nonrecourse to a recourse. Such a change would make it more likely that cotton would be redeemed for sale before carrying charges, reach a point where it is no longer profitable for producers to sell in the market and recapture the cost of carrying charges.

An analysis of the prices over the last 10 years shows that only in 2 years has the price risen to take care of these extra charges of insurance, storage, and interest. This policy change will reduce the likelihood of CCC acquiring stocks, thereby reducing the Government expenditures for this phase.

Producers need only to remember the 1983 crop and the PIK Program. If the Secretary had the discretion or if we had a recourse loan, we would have had many, many more bales distributed to these people so they would not have had to plant for PIK, which was unfair.

Fourth, the target price concept must be reconsidered. By establishing the target price at levels unrelated to market price or production costs, efficient producers are penalized, unnecessary production of undesirable growth is encouraged. The concept of the payment limitations precludes effective program compliance at times when carryover stocks reach excess levels.

We favor the retaining of the target price. But our program is that we reduce it to 120 percent of the loan, which was passed by the House in 1981.

The fifth point is resale of CCC stocks. The current program is 115 percent of the loan rate. We propose it to be market value. CCC accumulates stocks through loan forfeitures. These stocks depress the price. The price of the stocks is an artificially inflated price. The Government ends up carrying the stocks and paying storage, interest, insurance and service charges. Which in time exceed the value of the commodity.

Currently a great example is that we have 100,000 bales of cotton today we cannot sell because it is priced way above the going price. I would suggest that within the next year, no better than 2 years, the Government will have several million bales in this same category.

Sixth, if the base acreage concept is retained, changes will be required to establish and maintain accurate bases for those actually producing cotton. This will result in a base acreage more reflective of the actual land planted to cotton each year. This certain change will avoid the current anomaly of the inflated based acreage which requires USDA to implement large and costly acreage cutbacks each year.

You must remember, when we reduce acreage our competitors, foreign competitors, always increase theirs. It is our opinion that these basic changes in the 1981 act will substantially improve the prospects of the U. S. cotton producers in their competitive struggle with sythetic fibers and foreign produced cotton.

Thank you for the opportunity to testify here today. I'll be glad to answer any questions.

Senator Cochran. Thank you, Mr. Diffly.

Mr. Frierson.

STATEMENT OF DANIEL K. FRIERSON, PRESIDENT, DIXIE YARNS, INC., REPRESENTING THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE, INC.

Mr. Frierson. Mr. Chairman, I'll make my comments brief and summarize my written statement.[1]

I am Daniel Frierson, President of Dixie Yarns in Chattanooga, TN, and I am a member of the board of directors of the ATMI, American Textile Manufacturers Institute.

As you know, this association represents over 80 percent of the domestic textile industry and over 90 percent of the cotton system spindles in use today. I serve as chairman of the ATMI cotton committee as well as serving on the board of the National Cotton Council and also serve as an officer and director of American Yarn Centers Association and represent them here this morning.

As you are well aware, the American textile industry represents the major industrial user of cotton. We are a large percent of the economy, we employ over three-quarters of a million people, 47 percent of those females and 25 percent minorities. As you are also aware, our industry is under attack both domestically and from abroad.

The importation of textiles and apparel is coming in at a rate exceeding the domestic market apparel rate, which is creating many problems for us. Despite this, our industry continues to make major investments in new manufacturing equipment and today is the most modern textile industry on Earth.

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[1] See p. 562 for the prepared statement of Mr. Frierson.

In the spring of 1957 ATMI adopted a statement of fundamental principles which were regarded as being essential to any successful long-range program for cotton. I would like to enumerate these principles.

One, the preservation, encouragement, and expansion of efficient and profitable cotton production.

Two, an adequate supply and variety of cotton for domestic mills.

Three, a permanent one-price system under which American cotton is made available to American mills through normal channels at the same price it is made available for export.

Four, favor a cotton export program that insures sufficient markets for American cotton growers to allow them to produce volumes and qualities necessary to supply domestic need. And if a subsidy is to be offered in the export market, it should include products made out of cotton by the U.S. textile industry.

Five, continue the special trigger mechanism concerning the special import quota limitation for cotton in time of domestic shortage. And currently that is not a problem.

Generally the Food and Agricultural Act in 1981 has met these objectives. The basic concepts of these acts have the general support of all segments of the raw cotton industry. And we feel that is very significant.

I would hasten to add at this point that our position in all these points is in full accord with those of National Council.

Mr. Chairman, the ATMI policy positions stress that the main concern of the textile industry is access to an adequate supply of cotton at the same price as foreign manufacturers, at a price that is competitive with other countries, and at a price that allows growers needed profit incentives.

These recommendations, in combination with those of the National Cotton Council, if approved by your committee and the Congress will strengthen the present law which, as we have indicated, is basically sound. They also will put the world on notice that U.S. cotton intends to remain a major competitor in the world's fiber market. The ATMI endorses and recommends their passage too.

In response to a couple of comments that were made earlier, I would like to make a few additional comments. We operate a textile mill, several textile mills in the Southeast. Because of the tremendous surge in imports, we have had to layoff many employees and have curtailed operations in many of our plants because of this. Obviously we are not consuming as much domestic cotton as we would otherwise.

Most importantly, if imports continue to grow, as was pointed out earlier in the National Cotton Council presentation, textiles and textile companies will be a thing of the past. I have a table with me which outlines the growth of imports into this country of textile and apparel products and parallels obviously the figures that were given earlier by the National Cotton Council.

In light of this, what we feel is needed—and I think it is important that the committee understand that the textile import problem is not just a dollar valued problem. That the value of the dollar is creating problems for us. According to studies we have had done it accounts for only about 38 percent of the problem.

In addition, we feel like it will require passage of the trade enforcement legislation which you have cosponsored, Mr. Chairman, as well as others. There are now 36 Senators who have cosponsored this as well as 169 Members of the House. We feel this is required in order to be sure that the mill fiber arrangement is adequately enforced by our Government.

Thank you very much.

Senator COCHRAN. Thank you, Mr. Frierson, for your excellent presentation. All of you have helped us by acquainting us with your points of view and your suggestions for our committee as we approach the markup session that we will have later this year on the farm bill.

I was interested to hear in Mr. Diffly's list of recommendations that we make a change in current law that requires the resale of CCC stocks at a level above market price. This naturally tends to cause an accumulation of stocks. I think the current law says is the CCC stocks cannot be sold for anything less than 115 percent of the loan rate.

Mr. DIFFLY. Plus reasonable carrying charges.

Senator COCHRAN. Your proposal, if I understand it correctly, is to simply repeal that provision of the law and therefore permit the CCC to sell at market for whatever they can get.

Mr. DIFFLY. Right.

Senator COCHRAN. Who is that going to hurt?

Mr. DIFFLY. It's going to hurt the U.S. Government temporarily, but it is going to help the Government.

Senator COCHRAN. How is it going to hurt the U.S. Government?

Mr. DIFFLY. Because they do not sell it for less than they put a loan on it, less than the accumulated charges.

Senator COCHRAN. What industry groups, if any, in the United States, or what producer groups, will be hurt by this?

Mr. DIFFLY. None. I know there will be some contrary opinion.

Senator COCHRAN. I asked somebody about the sales restrictions when I first got on this committee and ran into that provision in a farm bill. The justification I heard for it was that they did not want the Government competing with farmers. If you had the Government out there trying to sell CCC stocks, that would depress the market price to such an extent that farmers could not compete. They could not compete with the Government because the Government had more of it. What's the answer to that?

Mr. DIFFLY. Well, my personal opinion is it will hurt the foreign producer. In other words, that foreigner out there today, he knows today what our loan price is going to be next fall, he knew this last October, he knew everything we were going to do last October when it was announced.

If we build up several millions of bales of CCC stocks, let us assume they were put on the market, these people are going to be planting this season and next spring.

They are going to plant this season because we have already announced the 2.3-cent increase in the loan. Next season they are going to have to wait a minute. The United States has stocks they are liable to put on the market. Every one of these countries is out there producing cotton. Pakistan is selling cotton at 47 cents. Australia is selling cotton this week at 45 cents in Taiwan.

We need to discourage this. These governments are not likely to.

They asked about China a while ago. It is our understanding that China paid their farmers 82 cents to produce cotton. This is for everything, no quota. They got so much of it this year, they are putting a quota on it next year.

What has that done to the domestic mills in China? The domestic mills in China are having to pay the 82 cents, so China, which has a normal increase in consumption over these years, it went pretty well straight up. This year, and next year, they are going to cut that consumption.

Now what China has been doing lately, they have not been cutting their prices on raw cotton, they have been cutting their prices on yarn, they are flooding the market with yarn, which is a heavy influence.

Senator **Cochran**. What is the reaction of the Farm Bureau, if you know, to the proposal to let the CCC sell at market price rather than 115 percent of a loan rate?

Mr. **Hargrove**. We have not discussed that approach. I think our approach would be to utilize those stocks, move them out, and use the export subsidies and try to solve two problems at one time.

Senator **Cochran**. The textile industry is important to a lot of the country, but specifically to the Southeast.

In our case, we have a lot of manufacturers and some textile mills. Is the future bleak, or is there an outlook that we can recover from the depression that has hit this industry? Can we see some of these plants reopening in the future? What is the outlook?

Mr. **Frierson**. I do not see plants reopening. I think the question is, How many more will close? That would be a much more appropriate question.

Currently with the growth of imports last year, if that were to continue, I think the National Cotton Council presented figures that would show in another 4 or 5 years there would not be any domestic textile industry.

Obviously, we certainly hope that is not the case. We think if the MFA were enforced, as it should be, and our Government represented it as it is should, we would continue to have a strong future. We think the domestic textile industry is important to this country for a lot of reasons, everything from defense to jobs.

But we are certainly are reinvesting in new technology, in new plants, more modern equipment, and feel like there is a future. But certainly the growth of imports has taken over about 40 percent of the apparel industry at this time.

It is in some way limited or at least the growth is related to the rate of growth of domestic textile economy; we will continue to have more plants shutting down.

Senator **Cochran**. Senator Heflin.

Senator **Heflin**. Senator Cochran inquires of this group about this market-oriented loan. I am not sure I understand all the details of it. But I suppose most of you have heard about it. I just would like to have comments from this group on that.

Mr. **Hargrove**. We have had an opportunity to look at it some but not spend very much time with it. The merit would be that it certainly should be adopted.

Consider, I guess, as our biggest concern is, it would be levels and how does it cost out? We have not seen any costing figures on it. We'd certainly have to be concerned about that, sir.

Mr. **Gillen**. Senator, we have looked at it briefly, and we have a number of questions that we wish to raise on it. One, it would require all cotton to be cycled through the loan. We think you should look at that aspect very carefully.

Two, we question whether this would likely cap market prices at whatever level the loan is set at?

Three, we believe this would delay the delivery of the crop anywhere from 30 to 60 days because of the ASCS processing of loan papers.

Four, this would result in delayed payment to producers at harvest time.

Five, it would require a substantial expansion of ASCS personnel who would be necessary to administer the program.

Six, the question of Government costs reaching prohibitive levels must be seriously considered.

Seven, a program with payment or loan limitations would be prejudicial to the commercial producers who are the bulwark of the U. S. cotton industry.

Eight, the program could quickly lead to a large buildup in stocks and the development of a continuing CCC resale program, which would be competing at all times with new crop cotton.

Nine, it is possible that the market incentives to produce quality cotton would be curtailed and the United States could lose its hard won reputation in the world of being a producer of high quality cotton.

These are initial impressions which come to mind in reviewing this particular proposal.

Senator **Heflin**. What if it was not as a substitute for the present loan program but as a choice alternative maybe on the pilot program basis? Would you see the same problems arising, or do you see some of those disappearing?

Mr. **Gillen**. I really cannot give you an answer to that, Senator. I would have to see the alternatives which are actually put in place; and people like Dewell Gandy, one of the experts in the country on commodity programs, would have to take a look at it.

Senator **Heflin**. That is all.

Senator **Cochran**. Senator, excuse me, I promised to recognize Senator McConnell for a statement.

Senator **McConnell**. Thank you, Mr. Chairman.

As the child in Alabama, I grew up around cotton, but I now represent Kentucky.

I would like to ask unanimous consent that I insert in the record a statement concerning cotton.

Senator **Cochran**. Without objection it will be included. We appreciate your stopping by.

Senator **McConnell**. Thank you, Mr. Chairman.[1]

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[1] See p. 548 for the prepared statement of Senator McConnell.

Senator HEFLIN. Just don't forget your Alabama upbringing.

Senator MELCHER. Mr. Hargrove, the Farm Bureau bill or proposal, as I understand it, would be a 4-year bill?

Mr. HARGROVE. Yes, sir.

Senator MELCHER. What is projected for commodity prices in the fourth year?

Mr. HARGROVE. Costs or projected commodity prices?

Senator MELCHER. Projected commodity prices in the fourth year.

Mr. HARGROVE. I do not have all of them with me at this moment, sir. We have not done all the projections. You have to take into consideration a lot of things.

But given consideration that the export incentive program which we propose would have an opportunity to work, we see a rather substantial increase in prices, not only in cotton, but also in other agricultural commodities, sir. I am talking about an increase say from present levels, but more importantly increasing levels that we would project from some other proposals.

Senator MELCHER. In the 60-cent range for cotton?

Mr. HARGROVE. I think we could anticipate better than 60 cents, yes, sir.

Senator MELCHER. Better than 60 cents?

Mr. HARGROVE. Yes.

Senator MELCHER. What about wheat? Do you happen to recall?

Mr. HARGROVE. Our proposal would indicate moving one-third of the excess supplies in a given year through the use of export incentives, if this takes place, we see a projected $3.25 commercial for wheat in the out years of the program.

Senator MELCHER. Now, Mr. Diffly, the proposals you made probably would not set very well with cotton producers. Is that fair to say?

Mr. DIFFLY. Well, I think it is a fair thing to say. But I think if the producers individually look at in hand, they would be in favor of our proposal for the long run, not for 1 year or 2 years, but for the long run.

Senator MELCHER. What do people consider the cost of production for cotton? Does anybody know that?

Mr. DIFFLY. I know approximately I think. There's probably disagreement from each and every producer, but I would say in the range of the area somewhere around $350 to $360.

Senator MELCHER. What does that translate per pound?

Mr. DIFFLY. 500 pounds would be 50 cents and 1,000 pounds is 35 cents if you have got your gin. So it would be somewhat higher than that.

Senator MELCHER. Somewhat higher?

Mr. DIFFLY. Than half of it. You cannot cut it in half if you produce twice as much.

Senator MELCHER. As a loan for the cost of production or what most people figure is the cost of production, I assume——

Mr. DIFFLY. I would say it is under what most people think.

Senator MELCHER. It is under?

Mr. DIFFLY. Yes.

Senator MELCHER. Then I think it would be fair to say that it does not look too good for these proposals. On exports, it seems to be all defensive.

You are exporting about a third of what you are handling?

Mr. DIFFLY. No, sir. It is more than half. But we project this coming year it will be less than half. In the beginning of August 1985, we shipped a good bit less than that.

Senator MELCHER. Ybu're speaking for all shippers?

Mr. DIFFLY. Yes.

Senator MELCHER. How do you view the opportunity for increasing exports?

Mr. DIFFLY. Yes, it is. I see a powerful fight for the next 12 to 18 months. Because you already have crops that are produced on the market. You have at least 4 million bales in Brazil, Australia, Argentina, and Pakistan. Just those four I would think you have 3½ million bales that need to be sold. They are going to be sold under our price no matter what our price is.

Without raising our loan price and our policy for planting the 1985 crop, you would have another increase in foreign planting. Then that cotton is going to sell under our price.

I think, you know, we are in a temporary thing. But if we are going to discourage--the program we have is going to have to discharge this foreign increase.

Senator MELCHER. I guess we'd all admit that it is an imperfect world and particularly in terms of who subsidized producers.

Your statement is to the effect that the growers in China are subsidized on the basis of 1987 cotton.

They have almost 2 years of our production hanging over the market.

Mr. DIFFLY. Yes.

Senator MELCHER. It is a very unbalanced world in terms of cotton.

What about reciprocal agreements? Financially there are people who would prefer buying from the United States rather then from China and would if we want them to.

Mr. DIFFLY. I think it is a great possibility. I think it is something that ought to be considered carefully. Mexico I think did some of that just this year.

Mr. GILLEN. Senator, one of the first things we have to do is get U.S. agriculture together. We have the situation where our domestic mill industry is in dire straits. We have the U.S. corn and wheat industry in opposition to what the cotton industry proposes to do about it. So I do not think we can start on reciprocal trade agreements until we have some agreement among the U.S. agriculture exporters as to what is the best tactic to take in world trade.

Senator MELCHER. I guess that is the reason we do not do anything. Nobody has their mind made up.

Mr. GANDY. I would like to comment. You say our testimony does not speak to the export side of it. I think the fact is that we clearly do. Because we are asking for 75 percent of the loan later on, either the domestic or world, which typically is what people use. In trying to take it to that level what we are trying to do is get price levels competitive in the world markets to take effect on some of these numbers that you have heard previous testimony mentioned to.

The reason I bring that kind of thing up again is that China started this season out with 8 million bales, produced a crop of 27.8

million bales, we think it is 27.8 million bales. So they end up with an 18 million bale stock by the end of this year.

I think the one point to watch there is you talk about world carryover, that 45 percent of the total world carryover is in the Chinese stocks. You look at the limitations as to what they can physically export out of the country and it is probably only around a million to 1.3 million bales. Ultimately, the next couple of years, millions and millions each year.

Senator **Melcher**. Why is that?

Mr. **Gandy**. Well, poor facilities, infrastructure back into the country to get these bales out of there. As we mentioned earlier, the bale sizes, they have these 200-pound bales. So they are putting in place these gins that are going to be able to put bales out into the market in 500-pound bales.

They are selling cotton in Japan right now and so it is being done. I think as you look at that large stock number, effectively that looks like a big overhang over the market, but in reality, a lot of that you cannot touch. It is like it is put in a vault right over here, and you cannot pull any cotton out of it.

So I think that it is not a little bit alike here. I hate to see you all do anything on it because I do not think it is drastic. But it is, you know, future world stocks that will built up. Because we have seen the increases in some of these other countries.

As Pete mentioned, I think if you look at Brazil, Argentina, Paraguay, and Australia, and you look at the acreage increases—and not just the acreage, but the thing we are looking at is the yield increases in some of these countries that have come about in the last few years, we have seen a lot of the production technology developed in this county flowing over into some of these foreign countries.

Now a lot of the stuff is coming back to get us from the standpoint of production numbers that we wouldn't have thought possible 5 years ago in some of these countries. These new technologies are over there in some of these markets. And it is evident.

So we need to send that signal to these countries about keeping these prices low enough to where we can put them back in food crops instead of textile crops.

Senator **Melcher**. I do not think we can govern the judgment or rationality of other governments. If their policy is to raise cotton, and they have a capability of raising that and flooding the market, I suspect they also have the will and motivation of saying now we have this capacity and we are going to use it, and do so.

I do not believe that we are at a stage where we can any longer just talk to each other about how we manipulate our prices to get them as low as would meet foreign competition that is heavily subsidized. I think it would be foolish of us to continue along that line.

We want a constant source of supply of basic commodities to trade. We must stabilize that supply and then aggressively trade. It may cost some more to produce it.

We'll sell competitors all the equipment they need, I am sure. Other countries will if we do not get the sale. I think what we have to have is a decision on how aggressive our trade policy is going to be.

We must protect our producers at a reasonable level to keep our supply available in these basic commodities such as wheat, cotton, corn, soybeans, rice, and others. Then we must aggressively trade and make the competition on the basis of trade.

We only have ourselves to blame for our trade policy. I do not think we can blame anybody else. We knew before GATT that countries would serve their own interests, which they are regardless of GATT.

There is no need in pretending that we can have free trade in a world where free trade is not in existence. These commodities are subsidized. We have to subsidize our own. I would prefer it the other way because we would be in an awful strong position competitively. But we are not in a perfect world. I think it is time we agree to agree on this and be forceful.

Senator **Cochran**. Mr. Diffly.

Mr. **Diffly**. I would just like to make a comment. Senator Heflin mentioned to the Senator of Kentucky about keeping up his Alabama upbringing. I want to tell you a about an ex-agricultural secretary in Alabama who always dressed real nice, like we are here today when he was politicking, he went out with his overalls. I want to apologize to Senator Heflin for not having on my tie tack.

Senator **Cochran**. We noticed his tie when he came in. We appreciate the cooperation of this panel in making the presentation to the committee. It is very helpful and it is good to have you before our committee.

Senator **Heflin**. I would like to extend an invitation to each of these groups that on the tax simplification, if they would to give us in writing how they think the proposed tax simplification might affect this.

Senator **Cochran**. The next group includes Bobby Webster, president, Southern Growers, Inc., representing the Southern/Southeastern Cotton Growers, from Dahlonega, GA; Raymond Marsh, chairman of the Alabama Farm State Cotton Committee, from Madison, AL; Chip Morgan, executive vice president of the Delta Council from Stoneville, MS; and Dan Logan, Jr., president, Louisiana Cotton Producers Association, Gilliam, LA.

We thank all of you for coming forward. Most of you may have heard my request of earlier panel members: We hope that you will be able to restrict your presentation to the committee to 5 minutes or less so we will have an opportunity for questions.

We have such a long list of witnesses who have responded to the committee's invitations, it makes it difficult to complete our hearing this morning unless we do comply with those limits. We hope you will cooperate with us in that regard.

Mr. Webster, you may proceed.

STATEMENT OF R.L. "BOBBY" WEBSTER, PRESIDENT, SOUTHERN GROWERS, INC., REPRESENTING THE SOUTHERN/SOUTHEASTERN COTTON GROWERS, DAHLONEGA, GA

Mr. **Webster**. Thank you Mr. Chairman. I am Bobby Webster, a cotton farmer from Georgia, and presently serve as president of Southern Cotton Growers, Inc., on whose behalf I address you today.

Southern Cotton Growers, Inc., is the regional cotton-producing organization in the Southeast United States representing cotton farmers from throughout Alabama, Georgia, North Carolina, South Carolina, and parts of Florida, Tennessee, and Virginia.

Mr. Chairman, our people stand ready to stand up for our country. Yes, we endorse the concept of a free market oriented long-range agricultural policy for the United States. Yet we are realistic enough not to bury our heads in the sand.

The pure free-market-oriented concept for agriculture in today's world economy is a myth. It is a myth to think that the American farmer can compete in a free foreign market which pays depressed wages, controls production, sets prices, subsidizes farm production, subsidizes exports, and produces mainly for the American dollar. Yet this is the factual situation we face today.

Due to these factors and the high value of the American dollar in overseas markets, we are being forced to sell our commodities below the cost of production. Yes, we must address our huge national deficit. We farmers stand ready to do our share, but only our share in relationship to all other segments of this great country.

Now, we are told that our program is not market-oriented and it must be changed drastically in order that we may compete in world markets and reduce costs of agriculture programs in this country.

In 1981, Congress passed, and the President signed into law, our current farm-program which was market oriented and would have worked as such if the Secretary of Agriculture had implemented his discretionary powers in balancing supply and demand, which would have moved our commodities in foreign trade and provided our farmers with a fair return on their investments.

Due to the policies which brought about the strong dollar and high interest rates, we have increased textile exports to the point where the American cotton farmer has lost upwards to 2 million bales in domestic cotton market, 2 million bales which could have made the difference between bankruptcy and survival for many of our farmers.

When you consider that four out of five bales equivalent of cotton in import textiles are foreign grown, the survival of the American cotton farmer is questionable unless action is taken to curtail this unfair activity. Such imports are the direct cause of depressed cotton prices and hence high Government costs during the past couple of years.

Before such high textile imports, the cost to the Federal Treasury for the cotton program was within reasonable limits, and the program worked. It can still work both in reducing Government costs while providing our farmers with minimum protection in circumstances over which he has no control.

We urge that the Agriculture Act of 1981 be continued. Through most of its long history, the CCC loan has provided very useful functions with little cost to the Government. It has served as an orderly marketing tool, provided a mechanism through which adequate supplies could be carried at a reasonable cost, and has aided farmers in obtaining production credit.

The CCC loan level for cotton should remain at its present level and premiums, counts and bases should accurately reflect market value.

We support the continuation of the target price concept which more accurately reflects inflation in the cost of production, however, we urge the use of cost per acre rather than cost per pound in determining increases in cost of production.

We oppose any limits on price supports or payments due to their inherent inequities and the adverse effect such limits have on balancing supply and demands as well as bringing about increased Government expenditures.

We further oppose any type of offsetting and cross compliance as such policies would have a severe impact upon our farmers in the South Seas which grow more than just one crop. In addition, such policies would reduce drastically participation in any type of production control programs as well as produce a double standard to those farmers affected by the limitations.

Southern Cotton Growers, Inc. has worked closely with other cotton producer organizations and through the producer steering committee of the National Cotton Council of America in the development of recommendations for new cotton legislation. We wish to endorse the principles presented by the National Cotton Council and the producer steering committee.

In the interest of time we have attached here the specific policy recommendations for the record.

Mr. Chairman, we appreciate the opportunity to present these comments and recommendations. Thank you.

Senator Cochran. Thank you Mr. Webster. The proposal that you have will be included as an exhibit to your testimony. We appreciate having it.[1]

Mr. Raymond Marsh.

STATEMENT OF RAYMOND MARSH, CHAIRMAN, ALABAMA FARM BUREAU, COTTON DIVISION, AND ALABAMA COTTON COMMISSION, MADISON, AL

Mr. Marsh. Thank you Mr. Chairman, members of the Committee, I am Raymond Marsh, Chairman of the Alabama Farm Bureau, cotton division, and Alabama Cotton Commission, representing more than 2,000 cotton producers in the State of Alabama. I have farmed cotton for more than 45 years and have witnessed many different programs and their effects on agriculture.

It was my privilege to testify before your committee 4 years ago in support of the Farm Program built around the basic concepts of a loan and a target price. Today I am here again in support of these fundamental tools for the next 4 years.

Despite of many things internationally these two program tools have worked in cotton. The current loan levels have not proved to be market barriers but rather supporters. The levels have not proved to be production incentives, but rather the minimum of basis from which to plan and work.

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[1] See p. 563 for the policy recommendations furnished by Mr. Webster.

Also, you took great strides in the last farm bill to make a Cotton Loan Program fair to all growers nationally by making loan prices clearer reflect true market differentials for grade, staple length, and micronaire. We thank you for that accomplishment and urge you that this legislation continue to support effort to making the loan totally reflective of the true market differentials.

The last 4 years have truly tested target price concept. We submit to you that it was truly worked as intended. We need to remind ourselves of the purposes of target prices, which are to provide a safety net in case of market disasters. And we sure have some, such as the unbelievable strength in the U.S. dollar and to keep the U.S. Government aggressive in the export market. This is truly the only tool cotton growers have to keep the administration and the USDA aggressively seeking export markets for agricultural commodities.

We strongly recommend an extension of current target price levels for a minimum of 2 years, and if reductions are feasible at that time that they be done on a scaled-down approach. Again, target prices have not failed but rather succeeded in providing producers the disaster protection of income that they were designed for.

We support the establishment of an acreage reduction program when the carryover exceeds 2½ million bales. Large carryovers are self inflicted disasters that take years to overcome. Acreage reduction programs should be voluntary but not severely penalized for compliance.

Current levels of payment limitations are so restrictive that many producers are prohibited from participation. If the payment limitations were any lower, it would certainly mean that most growers could not afford to comply with the USDA Supply Management Program. It would be a self defeating program from the start.

It is crucial to all cotton farmers across our Nation that any steps taken to help the crisis in agriculture be fair and equally beneficial to all producers regardless of credit sources, location, or size. The basis of any program should be the ability of that program to equally help any grower of cotton.

Last, we would recommend to you that programs already in existence that help all growers in the Nation in research and development be a priority. One such program is the Boll Weevil Eradication Program that has had a very successful start. This program's benefits are far reaching by lowering the cost of production. The problem continues to expand beltwide, and it is to all of our interests to keep the eradication program strong and growing.

We thank you for the the past support and feel all eradication programs should be top budget priorities. We are opposed to a long-term farm bill. We think 4 years is long enough. And there are several reasons why. We have to go back in the last 2 or 3 years and look at the amendments to the program. Things change so fast that we surely do not need a 15-year farm program. We are opposed to any kind of cotton reserve.

We thank you for this opportunity to testify in support of the legislation currently in place. Our current economic conditions affect all of us and we are aware of the awesome responsibility that you have to influence the market production for our Nation's food and fiber for the next 4 years. We thank you for your consideration of this testimony.

Senator **Cochran**. Thank you.

Because Mr. Heflin has another commitment he must keep, I am going to interrupt this panel's presentation and give him an opportunity to ask whatever questions he may have of the panel.

Senator **Heflin**. Well, I just want to ask one or two things. There's something about the cost of production of cotton. My recollection and information from Alabama, Mr. Marsh, establishes about $370 per acre, and that the average yield in Alabama for cotton is about 520 pounds of cotton per acre.

The Southeast, perhaps maybe the production has increased in certain States, maybe in California, Arizona, and some of those they yield more, maybe in the delta. But overall the cost, are those approximately right, figures relative to the cost of production in Alabama?

Mr. **Marsh**. Yes, Senator.

Senator **Heflin**. Mr. Webster, would that be possibly right?

Mr. **Webster**. In the State of Georgia it will be a little higher because our cost is a little more because we have the boll weevil eradication which probably cost us around $425 per acre.

Senator **Heflin**. Now, Mr. Diffly, I do not believe he said whether the cost of land was calculated into the figures of 37 cents without any land cost. Mr. Marsh, do you know about that?

Mr. **Marsh**. That is true, Senator, that is leaving out the cost of the land.

Senator **Heflin**. All right. I believe that is all.

Senator **Cochran**. Thank you very much, Senator. The next witness is Chip Morgan, but he is not at the table. Seymore Johnson from Mississippi.

STATEMENT OF SEYMORE JOHNSON, DELTA COUNCIL, STONEVILLE, MS

Mr. **Johnson**. Thank you, Senator. I am substituting for Chip. He is a little shy in expressing himself.

The council appreciates the opportunity to testify before this committee. As you know, Senator, the Delta Council represents the producers of about 10 percent of the Nation's cotton and about 10 percent of the Nation's rice, about 5 percent of the Nation's soybeans, and about all of the national commercial agriculture.

Senator **Cochran**. That is catfish.

Mr. **Johnson**. I did not want to be promoting too much.

We would like before we talk about the 1985 year to make some statements about the 1981 bill. Both council agree with and supported the target price of the bill. At that time the Department of Agriculture figures projected a 15-percent increase in exports for the 4-year term of that bill.

We believe had those projections come true that we would not be in the price situation we are today. We think that to accuse the target price concept is trying to put a bum rap on a program that we think had merit and would work, had the world's economic situation been different.

I agree with Mr. Martin and Mr. Barr, who testified earlier on the market loan level. We do not feel that the market loan in any way affected the market or interferred with the market's directions. We would hate to see this program dismantled because we think it is an effective program.

As far as the administration's proposed farm bill, we view it as being totally unrealistic. If it was implemented, I personally believe we'd be looking in Mississippi at the land reform as reversed. That bill also mentions market orientation. We think there is very little said about orienting the market.

We would like to see a bill that addresses market orientation from the standpoint of making the market competitive for the American producer.

We would like to see and suggest that we need to will this Nation to formulate a national agricultural policy which states first that we have been an exporting nation, agriculture exporting nation, since our inception. Second, we intend to protect those markets that we have developed over the years and that we will no longer serve as the residual supply.

We believe that the 1985 agriculture bill to be a water shed bill, and it can be a policy bill. But we think we must reassert ourselves in a positive fashion to say that we have certain markets, we think they are inherently ours, and we intend to make them just that. Thanks.

Senator COCHRAN. Thank you very much, Mr. Johnson, for your presentation.

Next on our list is Dan Logan, Jr.

STATEMENT OF DAN LOGAN, JR., PRESIDENT, LOUISIANA COTTON PRODUCERS ASSOCIATION, GILLIAM, LA; ACCOMPANIED BY FRED SNYDER, GILLIAM, LA

Mr. LOGAN. Thank you, Mr. Chairman. I am Dan Logan, and I am a cotton producer from Gilliam, LA. I have with me Fred Snyder, who is a cotton producer.

I am serving currently as the president of Louisiana Cotton Producers Association. The Louisiana Cotton Producers Association was founded 17 years ago to represent the interests of the cotton producers in Louisiana.

Cotton production was 900,000 bales in the early and late 1970's. Today we are producing over 1 million bales. We feel that we have been a part of this growth to represent ideas of a significant number of Louisiana producers.

We work very closely with the Louisiana Farm Bureau. We welcome any ideas and any suggestions from anyone we feel would benefit Louisiana cotton producers. We feel that we believe that you understand the very complex situation that all agriculture finds itself in and we offer our recommendations about the economy.

Due to unusual currency relationships, cotton growers have seen approximately 1.3 million bales lost of sales in 1984. Our domestic bills are subject to very stringent regulatory standards, such as those standards mainly, and many others which increase their cost of production.

We are seeing foreigners allowed to sell their bales into our country to compete with our mills, and they are not subject to these standards. These foreign mills contribute to the foreign growth of cotton therefore hurting both the U.S. producer and consumer.

We do not mind competition, but we want it to be on an equal basis. Louisiana cotton producers support the idea of assessing cotton incorporated checkoff funds on cotton goods shipped to this country.

If cotton producers of this country could help finance and develop our domestic market for foreign producers, foreign producers' share in the U.S. market, they should participate in financing the promotion and advertising. We support a market oriented cotton program which continues existing methods to term the cotton loan rate.

We believe the function of the loan is not to encourage production in the United States or abroad but to facilitate all of the farms. We feel that the current payment loan with an 8-month extension. We strongly favor the target price concept because it does not interfere with the operation of the market and encourage our Government to help us develop new markets and higher prices.

We think the target price might be better spent as a percentage of the loan or tied to the cost of production, or some other method which would make it market oriented rather than set an arbitrary figure.

We think it is extremely important and hope a payment of $350,000 in order to get a significant amount of participation in any cotton program. If it is determined that the base average for any crop is too large, we favor an across-the-board reduction for savings involving that particular group.

We favor a long-term retirement program, which is an efficient way to reduce the size of plants which are too large. We favor production on a bid basis to avoid disruption of local economies. We hope any type of offsetting or cross compliance is deleted, particularly from those affecting payment.

We support any type of export enhancement program which would help cotton producers export cotton. We feel that the unusually strong dollar is drastically hurting our ability to export all agriculture commodities. We as producers should be shown special consideration helping us to alleviate this inequitable position.

We are concerned that the recent publicity on the farm issue, which we feel is a financial institution bailout, would not result in the Congress feeling that they have done enough. We feel that the real solution lies in helping us sell our products both at home and abroad so that we can earn a profit in the marketplace.

We support very strongly funding for cotton production research, particularly short-term cost efficient research which helps us keep our costs low enough to compete in world markets. We oppose any type of cargo reference on any export bill because we believe that this makes our products noncompetitive in the world market.

We continue to believe that the U.S. cotton producers can compete with any cotton producer in the world if he competes on an equal basis. We are asking you as Members of Congress to help us today.

Thank you.

Senator **Cochran**. Thank you, Mr. Logan. I notice that all of you seem to have the same attitude about research in that it is important for us to continue efforts in this field.

By way of a report to you, just the other day we had a hearing in the Appropriations Committee, on which I serve. We were able to question administration witnesses who are in charge of the programs about what they intend to do with funds that we are allocating to them. It was an exchange attitudes and ideas.

I got the impression that, if the money is made available by our Appropriations Committee, the boll weevil eradification program will be continued. Those States that are willing to comply with their part of the bargain can expect to receive Federal funds to the extent they qualify for them.

I am hoping this is good news for you. You can take that back home to the producers in your States—that there is sentiment here for the continuation of that program. It is, like you say, important in terms of determining cost of production. I am convinced that one of the most important reasons why we have research projects is to figure out ways to lower farmers' costs so they can enjoy a better return. That is the hopeful purpose, but sometimes I think that gets lost in the effort to just do research. That's why I wanted to let you know about the boll weevil program.

One question I have for you is in connection with the payment limitation. I know the administration bill recommends that it be reduced sharply. What would the impact be in your area—to the southern growers that you represent, Mr. Webster—if that payment limitation were reduced to $20,000?

Mr. **Webster**. It would mean that a lot of them counting into the program, because the payment limitation, like it stands now, producers that produce 200 to 300 bales of cotton would be penalized because of that. So it would be a drastic cost thing because the $50,000 limitation now is about as low as we can stand.

It would be a drastic, making more of the producers go out and not be participating in the program. So I think it would really hurt us.

Senator **Cochran**. Mr. Marsh.

Mr. **Marsh**. I feel the same way. I think it would put a lot of growers out of the business completely. The $50,000 limit they could not compete because our cost of production is about 84 cents a pound. The only way in the world we can come above that is above average yield, and that all depends on the weather.

Senator **Cochran**. Seymore, what's the attitude in your area?

Mr. **Johnson**. We have seen figures, our economists have shown us that if the program was put into effect, limitations reduced, that about 65 percent of the farmers in our State would be producing below direct cost with no land or management figures in it at all. They just won't be able to do that.

Senator **Cochran**. Mr. Logan, what about Louisiana?

Mr. **Logan**. I certainly agree about what these other people said. One additional comment. I think the bankers look at that $50,000 pretty strong when they are considering financing next year.

Senator **Cochran**. So it would have a pretty strong adverse impact on credit.

Mr. LOGAN. Very much so.

Senator COCHRAN. I wish we had more time to discuss all of these issues. You have been very helpful to the committee. We appreciate your being here.

Mr. WEBSTER. Could I make one point toward the boll weevil eradification? We appreciate the efforts and all the money that has been sent our way. We are sending the boll weevil to Alabama and Mississippi. But we do appreciate it.

Mr. JOHNSON. We'd like to thank you for your leadership in that legislation. We feel very comfortable with your leadership that we are going to see some light somehow.

Senator COCHRAN. Thank you for that.

Before our last panel of witnesses comes forward, I am going to declare a 5-minute recess. We will resume in just about 5 minutes from now with the final panel consisting of Tommy Fondren, Cecil Williams, Bill Scott, Jack Stone, Nita Gibson, and Harvey Joe Sanner.

[Short recess.]

Senator COCHRAN. The committee will please come to order.

I've already announced the makeup of our panel. I hope that we will be able to keep your remarks within the 5-minute limit.

Tommy Fondren, you may proceed.

TOMMY FONDREN, CHAIRMAN OF THE BOARD, TEXAS ASSOCIATION OF COTTON PRODUCER ORGANIZATIONS, LORENZO, TX

Mr. FONDREN. Mr. Chairman, if I might, I would summarize my statement. We do appreciate being here. I'll try, to give you a part of my 5-minutes back.[1]

I do represent TACPO, Texas Association of Cotton Producer Organizations. In Texas we have eight cotton producer organizations. TACPO is an effort to come up with a unified voice of the eight organizations. We're proud of this organization. We feel it does the job and does it well.

Some of the things we are concerned with in the 1985 farm bill, as well as other people are, we feel that the loan level have been good computed in the manner that it is now. We think that it has proven its workable. If you take the 5-year average of the loan and disregard the flood level it, we would have had a $5,480 loan level.

Target price, we are not happy with the 81 cents. We'd like to think that is the minimum. We have a lot of producers who favor 86 cents. We feel like Congress in your wisdom when you wrote the original bill probably had it about right. We agreed with you as the Congress on the 86 cents. Somewhere there has got to be a little profit in these particular crops that we are growing.

We have many variables, we have weather variables, we have insects, we have decisions from FDIC, Federal Reserve, Department of State, White House trade representatives. We have a lot of those people that make decisions for us daily where we have no impact or effect on what they are doing. It is affecting us something fierce.

The $50,000 limitation we feel like is negative in our country to a supply management system. We feel that it discourages and limits, self improvement. It is a disincentive for a producer to try to do better. On cross and on offset compliances, we feel like it is a direct conflict with payment limitation. We also think that it encourages foreign production.

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[1] See p. 566 for the prepared statement of Mr. Fondren.

We'd like to see a long-term conservation program, one with rates that would encourage participation. We are concerned that it be a leasing type program and not an outright purchase by Government. We would have problems with a purchase if that were to happen. We talk about bases limited to the amount of crop land, we have a strong feeling on textile imports, as the others have testified to you today.

One of the points that hasn't been mentioned today on textile imports that bothers me is the fact that we as cotton producers are promoting our product, and in essence we are promoting foreign grown cotton with U.S. producer money that he does not have to put into the program. We'd like to see Cotton Inc. get the research funds or the promotion funds from imported cotton the same as we the producers of the United States pay.

We have problems with the strength of the dollar, as has been mentioned here today. We would like to suggest a currency equalization, funded with excess CCC stocks.

We'd like to see acceptable carryover levels lower than what USDA carries now, of 4.5 million. In our area, FCIC insurance is very important to us. We feel like they are not doing quite as well they could do. We'd like to see some improvement and encouragement from Congress on FCIC.

As others have commented, we have problems with CCC accounting methods. As you are probably award, we are fairly well in agreement with the rest of the Cotton Belt producers and the industry that supports current cotton legislation. We do have some problems when we look at parity. You look at parity for the February report and you will see that USDA indicates parity for cotton at 39 percent, wool at 28 percent.

Each of these, if you will think about it a minute, are natural fiber. The lowest ratio of the 16 commodities is carried by USDA on parity. That is not a good sign to me as a producer of natural fibers. We're a renewable resource, we note that.

If we do not address this, we are looking at manmade fibers that are using up natural resources of gas and oil to increase their production.

I've touched on all this briefly. We're not happy with the current economic conditions that we are in today in Texas. Our conditions are terrible. But we realize that we have budget deficits, we have problems in Government. We will bite the bullet with everyone else, but we'd sure like to bite it as equal. We'd like to remind you that we have been biting this bullet for a number of years now and some of the other segments I do not think have. Thank you.

Senator COCHRAN. Thank you Mr. Fondren.

Cecil Williams.

STATEMENT OF CECIL WILLIAMS, EXECUTIVE VICE PRESIDENT, AGRICULTURAL COUNCIL OF ARKANSAS, WEST MEMPHIS, AR

Mr. WILLIAMS. Thank you, Mr. Chairman. My name is Cecil Williams. I am executive vice president of the Agricultural Council of Arkansas on whose behalf I am appearing. The council represents agricultural and agribusiness interests in eastern Arkansas. It has served commercial farmers in the area since 1939. By the way, it was formed with the guidance of the Belt Council in Mississippi.

Council members produce soybeans, white rice, cotton, and grain sorghum. You are already aware of the stressful plight on American agriculture, especially the crops segment. I am sure you have heard people say the situation is the worst it has been since the thirties.

One of my senior members says that farmers haven't had such a difficult time getting financed since the period immediately following the 1930 crop. A tragic, gut wrenching attrition is occurring in American agriculture.

During the farm policy discussion in the producer steering committee of the National Cotton Council a couple of years ago, a friend told me that in the long run the market system and the law of supply and demand will have its way. He further pointed out that in the long run we will all be dead. He then reminded me that he has to live in the short run. All of his statements are true.

Large sums of Government money might postpone agrcultural misery, but it is unlikely that anything can reverse the great washout. At any given point in time there are always a number of farmers facing bankruptcy. For the that reason, it is difficult for farm organization to develop long-range agricultural policy. However, we have done our best under the circumstances.

For the last 2 years a legislative subcommittee of the National Cotton Council's Producer Steering Committee has worked diligently developing policy for cotton. For at least a year and a half the Five States Rice Producers Legislative Group has been meeting to hammer out a rice policy consensus.

Since an agriculture council representative participated in each group, we are going to support the testimony of each of these organization. Both the Cotton Council has testified today, and it is my understanding the rice group will appear here Monday.

Mr. Chairman, it is extremely difficult to arrive at policy positions to satisfy the needs of producers of rice and cotton from all the varied regions of this great land. It is remarkable that we have as much unity on a program for both cotton and rice as we have been able to generate.

I would say that we are forced to differ with the rice position that they will testify to regarding the freezing of bases. The council is unalterably opposed to the freeze of of bases under any circumstances.

The agriculture council favors legislation for wheat and feed grains similar to that which has been recommended for cotton will be recommended for rice. We see no need to change the program.

The remainder of my statement will be devoted to basic philosophical position pertaining to farm legislation which have been adopted to our board. Faced with payment limitations and other uncertainties, we believe the freedom to switch general scopes is essential, and we recommend the development of farm programs that will be free of acreage controls.

As long as there is a cheap food policy in this country, official or otherwise, we believe that Government is obligated to support agriculture in order that reasonably efficient farmers may have the opportunity to earn a profit. Regardless of the type farm program in effect, a Nonrecourse Loan Program must be retained to promote orderly marketing, give stability to the price structure, and to protect the farmer from unforeseen conditions which adversely affect the market price.

We favor programs which do not provide for ceilings or limitations on the price, loan, price support payment, diversion payment, or any other income to which an agricultural producer may be entitled. Such discrimination is unfair, inequitable, disruptive, and defeats the purpose of any program designed to improve the economic position of agriculture.

In order to conserve resources for future generations and to help solve the oversupply problem of American agriculture, we favor a Government program with incentives to induce farmers to participate in long-term land retirement practices on a voluntary basis.

Finally, we favor an aggressive Export Program that would use all possible means to increase foreign sales or disposal of U.S. farm products. Needless to say, we adamantly oppose restrictions on foreign shipments of farm commodities. The best way for a long-term solution to the farm problem lies in the export market.

In a recent speech in Memphis, Dr. Ed Shu, director of agriculture and rural development of the World Bank expressed the opinion that until the Nation gets its fiscal and monetary policy in order, agriculture and other industry which are dependent on exports will continue to suffer because they cannot compete due to the overvalued dollar. I believe most farmers are coming to the very same conclusions.

Thank you for hearing our views.

Senator COCHRAN. Thank you.

Bill Scott.

STATEMENT OF C.L. SCOTT, REPRESENTING ARIZONA COTTON GROWERS ASSOCIATION, PHOENIX, AZ

Mr. SCOTT. Thank you.

I am chairman of the board, and chairman of the national legislation committee of the Arizona Cotton Growers Association, representing some 1,300 cotton producers in the State.

You have a copy of our statement, and I am going to try to pick out some points for less than 5 minutes.[1]

In our previous appearances in both 1977 and in 1981, we consistently expressed the view that the market-oriented farm policies adopted in the 1973 act were achieving positive economic results. Yet in the 3 years of the Agricultural and Food Act of 1981 the results have been mixed.

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[1] See p. 567 for the prepared statement of Mr. Scott.

I would support the Farm Program resolutions of the National Cotton Council and the principles of cotton section of the 1981 act, and urge the Congress to emphasize the following essential points to the development of the 1985 farming bill and the continuation of strong and vigorous market oriented program.

First, if the committee is convinced of the necessity of harsh medicine, then we would suggest a gradual or phased program starting with an extension of the current act until 1987. The current economic environment deserves to be taken into consideration in directing Government farm policy.

Second, we continue to support a Cotton Loan Program as currently established under the 1981 act. We favor retaining a floor which is economically appropriate. We are not convinced that the loan floor is detrimental to our marketing program. In fact, the loan floor serves as a stable base for crop financing which in the current economic climate is critical to securing loan financing.

Third, we continue to believe that the target price deficiency payment system serves as an appropriate safety net. However, we believe that a fixed target price rising each year is inappropriate and could not be productivity.

In principle, we believe that the target price should be determined in relationship to the loan, perhaps at 120 percent as proposed in 1981.

Fourth, we support the proposal of the National Cotton Council to base deficiency payments on acreage diverted rather than planted acres.

Fifth, we would like to suggest that the committee consider the question of whether it is advisable to maintain in law a process that creates an artifically high cotton base. We urge the committee to consider this issue by developing a process that would reflect a more accurate cotton base and eliminate the need for any unnecessary acreage reduction programs or at least require only what is absolutely necessary. In this regard we recommend you view the National Cotton Council's resolution on this point.

Sixth, the association recommends that cross-compliance and offsetting compliance provisions, whether for farm or crop be prohibited. This basically destroys program participation.

Seventh, we want to be on record as being opposed to payment limitations. Again, this has a drastic effect on program participation. Anything less than $50,000 certainly would make a reduction program ineffective. In the absence of elimination of the current limitation, $50,000 is appropriate.

Eighth, we support reauthorization of title 14 for agricultural research as well as appropriate funding levels. I heard mentioned several times this item today. We have talked about lowering the cost of production to keep the growers in business. I think my point has been for a long time, we are not utilizing the benefits that we have available to us.

The best way to increase your net out of a cotton crop, I think, is to increase production without additional cost. I just want to point out this out for two reasons. While we are talking about cost reduction a few minutes ago, if you take the 350 pounds mentioned and the $90 for ginning and marketing, and add that to the budget, that might be appropriate somewhere in the Cotton Belt, not in mine.

At a 600-pound production level the cost of growing and harvesting is 73 cents. So that is about the Nation's average. But let us go on up to 750 pounds, that cost of production is 58½ cents. But if you get to 1,000 pounds, you have got 44 cents in it.

So my point is, two things, that is about what the cost of production in some areas is. You can double that cost in my area and come up with the cost, and this was done through research. Instead of making 600 pounds, I am impressed with the China situations because we have been growing cotton and are more sophisticated and have more research, much more than anywhere else in the world.

They are almost double. They are 900 pounds cotton per acre. So needs in research are great. If we can use it in that way, I just hear so much talk about reducing our reproduction costs, and I do not think it can be done. We need a lot of room to increase our yields.

Finally, Mr. Chairman, this association is of the opinion that unless this committee through this bill or through some other measure comes to grips with the impact of the overvalued dollar all the fine tuning in the world will make very little difference to a market-oriented Cotton Program. This has been repeated and repeated. We would like to say that very strongly. Because from 85 to 95 percent of our cotton in the West is exported.

Of course, such programs of a loan are not adequate. We believe that programs outlined in the 1984 report of the President's export council bears on this issue. It should be considered by this committee.

We recognize that this is a complex and difficult issue for agriculture. But we believe that it can be addressed in the spirit of cooperation, not protectionism.

In conclusion, we know that the 1985 farm bill is being created in an environment of great pressures. We hope, however, that you will proceed in a manner that will serve our productive capacities and competitive spirit. America needs a strong food and fiber industry, and we are committed to working with you to achieve that objective.

Senator COCHRAN. Thank you, thank you very much.

Jack Stone.

STATEMENT OF JACK STONE, PRESIDENT, WESTERN COTTON GROWERS ASSOCIATION, FRESNO, CA

Mr. STONE. My name is Jack Stone, and I am a cotton farmer in Stratford CA, and am president of the Western Cotton Growers Association.[1]

Our organization represents about 3,000 cotton growers in California, the second largest State in the Nation in producing cotton. For the past 2 decades we have been trying to help write a real truly market-oriented farm program, one that is world competitive and one that will not not build up huge stocks.

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[1] See p. 570 for the prepared statement of Mr. Stone.

In 1960 the world market was about 45 million bales, and we had about 31 percent of that market with a crop of about 14 million bales.

Senator **Cochran**. This is in 1960?

Mr. **Stone**. 1960, yes, sir.

Now, 24 years later or so, the world market is about 80 million bales, and we have about 16 percent of that market with only a crop of 13 million bales. We figure something is wrong there and we have got to do something different. Our programs in the past haven't work as we would like them to.

We figure now is the time to write a really market-oriented program. To set the stage on that I would like to talk about four points that we think are real important. The first one is our dependence on export trade. The reality of our agriculture today is our great level of production.

The United States produces twice as much cotton as is required to satisfy the domestic need. That means about 53 percent of our production must be exported. Therefore, any farm program that we practice must definitely be market-oriented and world competitive, and there can be no floors that would allow any nation to under price our product.

Then a second item is the high dollar value which we have all talked a lot about. But we figure that is hurting the U.S. agriculture more than all other items combined. Cotton prices have dropped about the same amount as the dollar has increased. Although the U.S. cotton farmers are maintaining their share of the export market, it is being done at a loss. It is forcing us to sell that way and leading a lot of us into bankruptcy, a lot have been there already. And that is not good.

Then the third item is uncontrolled foreign textile imports. There's been a loss of about 2½ million bales of our traditional cotton market supply due to these imports. It is critical that we avoid anything that might tend to give foreign textile manufacturers any advantage in exporting their product to the United States.

Of course, the value of the dollar has a great deal to do with this, and while I am talking about that, I sure appreciate your efforts in the Textile Agreement and Enforcement Act, or whatever that is you fellows got going, sounds good to us.

The fourth item is there should be no floors on the loan rate or the target price. If there are floors, we figure the program then is no longer market-oriented

With these four points in mind, we are supporting the National Cotton Council's broad plan. We realize that many farmers are suffering difficult times right now so we must make any changes with caution. But we must get the world competitive pricing as soon as possible. Otherwise, we are going to lose a lot of our part of that great world market.

So with that, thank you for allowing us to be here.

Senator **Cochran**. Ms. Gibson.

STATEMENT OF NITA GIBSON, PRESIDENT, COTTON POOL, INC., OF TEXAS, SEMINOLE, TX

Ms. GIBSON. My name is Nita Gibson, and I am president of Cotton Pool, Inc., a marketing association. I have served in that capacity for 10 years. I also serve as the national cotton chairman for the Women Involved in Farm Economics. My husband Charles and I live on our farm in Seminole TX.[1]

Before we get into our skull practice ideas for your consideration, we want to share these general observations. We want to go on record urging this committee to establish clear and enforceable policies concerning textile imports. We know the administration is doing a great deal to curtail imported cotton textiles, and we applaud that. However, more must be done.

For the record, we are for a balanced budget and we are for taking our share of budget cuts. In the midst of the 1985 farm bill we hear a lot about the free market. It is interesting to know, Mr. Chairman, that the farm bill of 1973 was hailed as the free market at its best, also trying to provide complete freedom of flexibility for our farmers.

On the other hand, some Members of Congress foresaw the pitfalls of the 1973 bill that introduced the target price concept. It was pointed out that the financial liability of Government could grow into billions of dollars. The theory was as market forces have always put our farmers in a position of price takers, those same market forces would depress market prices to the extent that deficiency payments would increase and increase. History certainly bares that out.

It is obvious that the 1973 free market bill as amended and brought forward today has not served us well. We as farmers have incurred $216 billion debt, and Government has spent billions also. We urge new legislation for the 1985 farm bill.

Mr. Chairman, as we continue our discussion of the free market concept, we also make this observation. It is conceivable that the free market will work for the family farmer provided that the Congress passes laws simultaneously with the 1985 farm bill to restructure all industry. Without such laws, agriculture will be thrown to the wolves. Existing antitrust laws and countervailing power have not stemmed increased and unreasonable industrial concentration. In fact, Mr. Chairman, we believe agriculture must be given countervailing power to use against those who possess larger amounts of unreasonable market power.

It is my personal opinion that we have failed in writing successful farm policy because we have not properly recognized nor have we properly addressed this issue. At this point we must stress the point that legislation must be written that will lift farmers from being price takers to being price makers.

I take this opportunity very seriously, and I know you are wanting ideas, and I know we have a couple for your consideration.

First, let me say in preparation for this idea session we have reviewed some 100 years of American agriculture policy, reviewed marketing strategies in this country, the EEC, and other countries of the free world.

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[1] See p. 571 for the prepared statement of Ms. Gibson.

In addition, we want to stress that the intent of our idea is as follows: Permit self-determination of farmers, restore profitability to agriculture, reduce heavy demands upon the Federal Treasury, to reflect producer, consumer, and the Nation's domestic and foreign economic interest and would better serve those interests more than our present policy. To arm the farmer against vagaries of a market that is driven by political forces, and to not cut production drastically.

Our two ideas are a think tank type of evaluation and would provide, No. 1, an insurance plan for crops and income protection; and No. 2, for a price recovery system that will garner from the marketplace a profit to the farmer.

The main provision of this insurance plan would be as follows: To adequately ensure against income and crop loss and to replace the Federal Crop Insurance by 1988. The plan would be funded by a $10 an acre assessment. The details should be worked out by these groups. Our second idea for consideration is a profit to the farmer. Mr. Chairman, this one was mentioned before, but try we must.

In order to accomplish the above-stated goals, we recommend legislation by the Congress that would establish a producer owned and controlled marketing board for each commodity. We want to stress producer owned and operated, not Government.

Let me share with you some of the reasons we make the suggestion. We owe $216 billion. We are drawing too heavily on the Federal Treasury. Our present policies are not working. Every farmer in America wants a price that will pay his bills.

Historically, in other countries, marketing boards have been established following periods of depressed and uncertain agriculture prices. Producer discontent with the structured functioning of the agriculture marketing system resulted in the establishment of marketing boards.

We believe marketing boards would give to the American farmer that missing element of management that has always eluded him, namely management of price and supply. Management of this type is needed to convert the disorganized resources of the farmer into a useful enterprise. This doctrine is accepted and practiced by all successful business enterprises.

We believe this marketing tool would be a dynamic force that in its functional intent would not only be beneficial to the farmer, but would also make an overriding social contribution to the entire Nation. We envision this board being structured to establish these principles.

Eliminate the $50,000 limitation, permit markets, futures and spot to continue unabated. Merchants and exporters would continue in their present role. The entire cotton industry would work together in establishing production goals, annual review of policies to amend or correct if necessary, 81 cents target price staying intact, elimination of deficiency payments on domestic sales, continuation of deficiency payments on export sales.

We envision reducing Treasury expenditures by 45 to 50 percent of present costs. We believe we could reestablish our export markets if not enhance them.

Mr. Chairman, we realize that what we are suggesting is a significant departure from present and past policies. We also realize that you have to obtain producer approval, perhaps through a referendum before legislation is written. We request that your staff, as we say, put a pencil to this idea. If it is found to be feasible, then we could proceed. Perhaps a pilot project of this nature could save our beloved industry.

Thank you.

Senator COCHRAN. Thank you, Ms. Gibson. The next panel member is Harvy Joe Sanner.

STATEMENT OF HARVY JOE SANNER, NATIONAL DELEGATE, AMERICAN AGRICULTURE MOVEMENT, DES ARC, AR

Mr. SANNER. Thank you, Mr. Chairman.

I do not know about everybody else, but I've heard about all the market-oriented talk I can stand. I've got to have some production orientation in the farm legislation that allows me to get my price out of this great market we hear about. I am tired of losing money.

We think that the key thing in the 1985 farm bill, there has got to be a profit back in agriculture. We have conducted several hearings around the Nation and AAM has put together some ideas, and I would like to run them by you now. We think you should raise CCC loan rates at 70 percent of parity for all commodities. This is on the average about the cost production nationwide.

As far as cotton loan price this would be .86 cents a pound. This is where the target price would be without the freeze. Supply management can be accomplished, but it must be a mandatory program through referendum by farm operators. As I said earlier, we have had hundreds of meetings this winter, and we think that referendum would pass.

If it shouldn't, we think the farmer should have to comply with the Acreage Reduction Program for 1 year before he would be eligible for the loan rate the next year. The program is going to have some teeth in it if it is going to be effective. We think the terms of the loan should be 36 months, and should remain a nonresource loan.

I had kind of a lengthy statement here, and I know you have been here a long time, so I won't spend a whole lot of time. I'll just skip on through it, and you might have some questions.[1]

We know we are going to have competition in the world markets, we recommend the use of whatever it takes, subsidies, export PIK, adequate credit, interest buy down, Public Law 480, et cetera. These subsidies should match foreign governments, whether they are direct or hidden. We're seeing a lot of corporations entering agriculture and we are seeing some rural communities in Arkansas being destroyed because of this.

Our tax structure is partly at fault. We think there should be a maximum of $20,000 writeoff for nonfarm income invested on farm for loss operations. We believe that we have outlined a program that will work at less cost to the Government.

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[1] See p. 573 for the prepared statement of Mr. Sanner.

And we put profit back in agriculture. It is radical, but I am ready for some radical changes. What we have got is not working well. If this 1985 farm bill does not take a radical departure from what we have had since 1972, you won't be bothered with me coming back up here next year presenting testimony. I'll be out of business, as will many of my neighbors.

One thing I think we ought to mention. You cannot develop a cotton program or any other programs in a vaccum. I think some of them in the past have been. Any move to restrict payments, remove any kind of incentive from the Feed Grain Program, or Rice Program is going to be disasterous for soybean producers. As far as a Soybean Program needing changes—many people feel they do not—I have yet to find one soybean producer that is happy with it. It definitely needs changing. It is not working.

So it needs to be addressed, it needs to be treated like a major commodity. They haven't been. So that needs to be addressed. Please bear in mind whatever you do to cotton, feed grains, all the rest of the commodities is going to have an effect on soybean producers.

Thank you, sir, for having me here today.

Senator COCHRAN. Thank you, Mr. Sanner. I know that other members of the Agriculture Committee have been actively soliciting advice and comments from their own constituents with respect to the 1985 farm bill. I know there have been hearings in this regard that have been authorized by this committee. I've chaired some of those hearings. This hearing today, of course, focused specifically on just one commodity, cotton.

We have had hearings going on over time to look at the many aspects of the agricultural situation, and at specific commodities. In my State last year, I personally conducted four different hearings. One of these in Jackson, looked at the agricultural situation from a general overview as we got toward the point of working on a new farm bill. This was repeated in Greenwood, MI; at Mississippi State University; and in Grenada—where we had a meeting there predominantly with members of the American Agriculture Movement.

The point I am trying to make is that the committee and the individual Senators have been making a very strong and concerted effort to involve a lot of people in the process of arriving at the correct decisions for the 1985 farm bill. Your being here today to present your testimony, speaking for your producer organization or for yourself individually, in some instances, is a very important part of this exercise.

I want you to know that I deeply appreciate your being patient with the committee and being here, traveling as far as many of you have to respond to the invitation of our committee to participate.

It is unfortunate that we end up trying to do too much here in this town at once. That may be one of the problems with our national Congress and with our Senate.

The reason I make these comments is that I do not want any of you to think that, because every Senator on the committee is not here today to hear every word of your testimony, that they are not interested in your testimony or that it will not have an impact. It will. I assure you that is an important part of this process.

We have pretty well run out of time. I know there are others who have commitments, and I have commitments, too, to do other things. I went across the hall awhile ago to my desk and there were two or three phone call slips. One of them said the caller was really mad because he hasn't been able to get in touch with me for the last 3 days. I've been chairing hearings for the last 3 days. He is a farmer. I told one of my staff members to call him back and tell him I am mad at him for being mad at me.

These are things we run into trying to get things done when there's not enough time. I am going to defer questions. It may be that the committee will have questions about some specific aspects of the testimony. I have questions that I would like to ask each of you. We may submit those in writing to you. If we do, I hope you will be able to take a look at them and give a written response. All the witnesses this morning are subject to receiving questions that might develop later on. We need your input on this.

Let me just wrap up the hearing by again thanking you very sincerely for being here. I think we have had an excellent hearing with a lot of participants, and we have received a lot of good information. We appreciate your cooperation.

We will continue these hearings of the 1985 farm bill at the call of the Chair. Until then, we stand in recess.

[Whereupon, at 12:50 p.m., the committee recessed, to reconvene at 9:30 a.m., Monday, April 1, 1985, in room 328-A, Russell Senate Office Building.]

See parts II and III for continuation of the hearings.

APPENDIX

MARCH 7 HEARING

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Mr. Chairman, I am glad the 1985 Farm Bill hearings are officially underway. Many meetings and field hearings have already been held throughout the country involving members of Congress, representatives of the Administration, and persons and organizations directly or indirectly affected by farm legislation. I think it is safe to say at this stage in the process that the 1985 Farm Bill has received far more attention by a more diverse group than any other legislation before us. I believe this additional attention is good.

I believe it is in the long-run best interest of U.S. agriculture to make an all-out effort to push a nationwide educational campaign on agriculture. As a greater understanding of the vastly complex agricultural economy is developed throughout the country, we may be able to make significant progress with the difficult issues involved. I think it is very important, not only for farmers, but also for all of agriculture and the entire country that steps be taken this year to bring agriculture into proper perspective. Agriculture is very important to the U.S. economy and that fact needs to be better understood.

Mr. Chairman, the American farmer needs help. I have made this plea for twelve years, which is my entire service in Congress—six years in the House and six years in the Senate. The experience in my State of Mississippi gives me first-hand knowledge of what farmers need. Mr. Chairman, farmers need a profit for their investment of time and money, and the profit must be commensurate with the level of risk inherent in production agriculture. The farmer's need is no greater than the basic requirement for any business to succeed. The point that must be understood is that a farmer has the least ability of any businessman to control his own profit margin.

Farmers have very little control over many factors of production, such as the weather, interest cost, fuel expense, the demand for and price of their products, and the impact of international markets. These factors, coupled with the higher than normal degree of decentralization in production agriculture, result in a very ineffective degree of bargaining capability for farmers. Thus, farmers are often referred to as "price takers," and the course of events over time has proven this characterization to be accurate. Therefore, I am in favor of "the safety net" concept of federal support for farmers.

What kind of support do farmers need? The question of long-run survival of farmers will not be answered by just credit availability. Farm debt increased from about $53 billion in 1970 to $215 billion today. That's more than 400 percent. That statistic alone suggests credit has been available to farmers. But over these years the number of farms declined by about 600,000—from in excess of 2.9 million to about 2.3 million or about 20 percent. This statistic indicates that profit opportunities have been few.

Neither will the long-run survival of farmers be assured by restructuring debt. If there is a need to restructure debt because of a one-time natural disaster (the kind of disaster that is not likely to recur soon or at least not for a period of years) then—and only then—will it benefit farmers. Restructuring debt will not increase farm income. It will not increase farm profits. What it will do is ease demand on cash flow for a short period of time. But if profit is not increased, the reason to consider restructuring in the first place will not have been corrected, and it will only be a matter of time until the lack of profit will restore the original level of demand on cash flow. As a result, farmers will be right back in the same position—needing to restructure debt. If additional credit is all that is extended each time cash flow problems develop, this cycle will continue forever without any real help for farmers. More credit will not change the economics of agriculture.

Mr. Chairman, the federal budget is in trouble because a fundamental principle of sound finance has not been followed by this country—spend only the revenue you take in. The only exception to this rule involves emergencies that require, for a limited time period, spending that exceeds revenue. We are already committing a fundamental financial error. Applying federal aid to the symptoms of farm problems rather than the causes, only compounds and multiplies the effect of the error. Aid in the form of more credit to farmers does nothing to help cure the farm problem, and actually adds to the federal budget deficit.

Mr. Chairman, it has long been recognized that farmers are victims of their own actions. Through their hard work, care for the land, and life-long eagerness to do their very best, farmers now produce seven times as much per hour of work as they did in 1950. Without an equal growth in demand for these products, prices generally have not increased. Even though farmers have increased their efficiency, cost of production continues to rise and results in even lower profits. Shortage of profit is the primary reason farmers leave the farm—not shortage of credit. Government action to extend more credit, or make credit easier to obtain, will not correct the real farm problem. The real farm problem is related to national and international macro-economic factors and not micro-economic factors such as where should a farmer be able to obtain credit or how much credit he should receive.

Congress adds to the farm problem when it takes actions that encourage more capital to flow into agriculture in the face of an inadequate return to what already is invested. Profit must be increased by reducing cost, expanding markets, and increasing price for capital that currently is invested in agriculture before more capital is encouraged to enter. This should especially be the case if the encouragement comes from government. Without this increase in return, the only economically feasible option for U.S. agriculture is to allow or encourage the exit of some amount of capital currently invested. A reduction in capital does not necessarily mean more farmers must leave, although that has been a major factor over the years. Capital takes different forms and is invested for many purposes. For example, tax laws are important to capital accumulation in agriculture and should receive proper attention in the debate on the farm problem.

Farmers need help to increase profits. There are two courses of action government can take to provide help. One is to balance the budget to lower production cost by lowering interest expense. The other is to foster an aggressive trade policy to increase demand for farm commodities by developing and expanding international markets.

Currently, twenty percent of annual farm operating expense is interest on debt. Actions in fiscal and monetary policy to bring about lower interest rates will provide the kind of help that will increase the chance for farmers to survive because it will increase profits. This is true without one additional unit being produced by farmers or sold by markets. When the cost of production is decreased, profit increases without farmers having to spend one additional dollar. Also, lower interest rates will help improve the relative value of the dollar in trade for export purposes.

Equally important is market development and expansion. On the average, about 30 to 40 percent of U.S. agricultural production has been exported. But, in recent years, these markets have declined. Without increases in demand, the current U.S. production capacity cannot be sustained. If it is not sustained, farmers will not be the only sector of agriculture affected. Farmers comprise only 3 percent of the population, but 20 percent of private employment is in agriculture. Therefore, the future for many people depends on agriculture continuing, at least, at its current capacity. Domestic demand is not expected to increase substantially because the population will not grow significantly. But the population of the rest of the world is projected to increase significantly.

For agriculture to contribute its full potential to the U.S. economy, access to world markets must be obtained to have adequate outlets for what is produced. Furthermore, access must be at a level commensurate with U.S. agriculture's relative comparative advantage in production. Any lesser quantity reduces agriculture's assistance in the nationwide economic recovery. Agriculture has a potential that must be maximized. The benefits are too great to squander.

I hope Congress develops a full and complete understanding of agriculture and a determination to provide real help. Every person operating a farm cannot be maintained by the taxpayer. Farmers must be kept on the farm by a system that ensures a profit for the capital that is invested. Farmers must be encouraged to remain in business by government policy only to the extent necessary to offset the uncertainties of the environment and market externalities.

Stability is the central issue in agriculture, especially in production agriculture. Without a reasonable degree of stability, decision-making in production agriculture can turn into a guessing game. There is an important role for government in agriculture. The level of government involvement must be adequate, and it must be the right kind in order to provide real and lasting help.

Mr. Chairman, I believe 1985 offers a unique opportunity to forge such a policy, and I encourage all my colleagues to join in this effort.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Mr. Chairman, I am pleased that the committee is now beginning the hearing process that will lead to enactment of a new farm bill this year. I look forward to the testimony today of farm leaders and the Secretary of Agriculture. I believe that these hearings—including the hearing that Senator Cochran and I will hold in Vermont on March 18—can provide useful information to guide the committee in its reauthorization process this year.

Our Nation's farmers face a multitude of problems.

We have an overabundance of some farm products that, coupled with weak demand caused by low economic growth rates in other nations and in many areas of the United States, has led to depressed prices for commodities. As a result, net cash farm income will, according to USDA forecasts, decline substantially in 1985.

Farmers also have to cope with interest rates that have remained at persistently high levels, and rising production costs for other farm production needs.

Of course, these difficulties are not insurmountable, and I am convinced that, with the help of a sound farm policy, our farmers can meet the challenge presented by the current situation.

But I am not convinced that the farm program proposed by the administration is the best that can be done, and I believe that the rejuvenation of farm policy should be one of the highest priorities for the Senate this year.

Complicating our job will be the policy restraints caused by the current and projected budget deficits. In fact, much of the discussion over the past year concerning farm policy has focused on the current costs of the farm programs.

We must continue to be mindful of the cost—the high cost of the farm programs in the past few years is far from acceptable. However, I believe that much of the rising cost of farm programs can be avoided if USDA operations are made more efficient. I believe the nation still has faith in historic programs that are of proven value to farmers and consumers alike.

Mr. Chairman, I look forward to this morning's testimony.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Mr. Chairman, during recent months those of us interested in assuring the economic vibrancy of U.S. agriculture have wrestled with the composition of this vitally important 1985 Farm Bill. I wish to commend Secretary Block for the Administration's omnibus farm bill for consideration. Likewise, Mr. Chairman, you and the Agriculture Committee staff are to be commended for preparing your own comprehensive proposal.

Today's hearing marks the first of a series of hearings providing numerous opportunities for the Committee to receive the views and legislative recommendations of a wide variety of agriculture organizations. I am pleased that one of these hearings will occur next month in Fresno, California and appreciate the Chairman's interest in receiving input from the growers throughout my state.

Traditionally, federal farm programs have focused on the needs of producers of "basic" farm commodities, such as wheat, corn, cotton, and rice. Much of our current agricultural legislation either derives from actions taken in the 1930's in response to the great Depression or reflects incremental changes in 1930's policies to meet changing needs. Recent events have raised serious doubts about the ability of the U.S. government to formulate a consistent and effective agricultural policy.

Although the soon-to-expire 1981 Farm Bill provided a degree of stability in domestic markets, it also was accompanied by three adverse developments: loss of foreign markets, rising federal costs, and accumulation of government-held stocks. These huge stocks were cut substantially by the subsequent "Payment in Kind" program; however, this acreage reduction in the U.S. was accompanied by expanded production by our worldwide competitors, which further eroded U.S. market shares.

I believe that past legislation has not adequately recognized the fact that American agriculture is highly dependent upon export markets. At one time, the U.S. was less reliant on overseas markets, and we had greater autonomy regarding price support and production controls. Today, our price supports form an umbrella for the rest of the world, and our production cuts make room for increased production by our competitors.

By and large, production of horticulture crops, which are an important component of California agriculture, has not been covered by previous farm bills. This year, because the farm bill must address questions of export policy for all commodities, as well as the changing needs of basic commodities, the Committee's consideration will need to include these horicultural or speciality crops, which comprise many of our agricultural exports.

Mr. Chairman, California is the nation's number one agriculture state and ranks in the top three in farm exports. Twenty-eight of the state's crops are dependent upon export markets to absorb over 50 percent of their production, of which 11 of these export-dependent crops are exclusively grown in California. One in every three California acres produces for overseas markets, and nearly 25 cents of each agricultural dollar in the state is derived from export sales.

It has been said the California connection to the international market is both a "door of opportunity and a window of vulnerability." The export edge serves California farmers by absorbing a significant portion of our production and by stabilizing our commodity markets, maintaining our level of profitability, and increasing farm-gate returns. At the same time, however, that export profitability edge carries with it the sting of vulnerability. Cotton, rice and wheat depend on exports for as much as 80 percent of sales. About 45 percent of the California lemon crop is exported, as is 60 percent of the almond crop. Thus, when foreign nations limit our exports, either through overt actions or because of diminished ability to afford our products due to the strength of the U.S. dollar, California agriculture is particularly vulnerable.

After a decade of steady growth, California's exports have plummeted twice in as many years. They dropped by as much as 20 percent in 1982 and again in 1983 by an additional quarter of a billion dollars. Factors contributing to the sharp decline include the strong dollar, sluggish worldwide economic recovery, and increased unfair trading practices on the part of our trading partners.

Because of the importance of export markets for California production of basic commodities, I am an advocate of a "market oriented" farm policy and believe that the 1985 farm bill should set government loan rates at levels that reflect world market realities. The artifically high rates of recent years have lead to predictable price undercutting by our international competitors, resulting in the loss of foreign markets and the costly expansion of government-held inventories. In my opinion, emphasis on world-wide market expansion, not producer cut-backs, is the key to improvement of the nation's image as a reliable supplier of food and fiber and it should be the cornerstone of the 1985 farm bill.

Although the Trade Titles of the Administration's bill and Senator Helms' bill differ in their respective approaches, they are represented of the widely-held belief that this legislation must provide government with the requisite tools to assure fair trade opportunities for the American farmer. I strongly share in that belief and based upon the testimony throughout these hearings, including the one in Fresno, I will be offering for the consideration of my colleagues on the Committee a package of trade proposals.

STATEMENT OF HON. DON NICKLES, A U.S. SENATOR FROM OKLAHOMA

I thank the committee for the opportunity to testify today at the first of what will likely be a lengthy series of Senate Agriculture Committee hearings on the 1985 farm bill.

Farmers have operated for the past four years under government programs that have failed in a number of areas. They have failed to maintain farm income despite increases in taxpayers' dollars used to finance the programs. They have failed to hold down production and in fact, have many built-in incentives for producing beyond our nation's ability to consume and export.

Oklahoma farmers and ranchers have made it clear to me over the past several months that deficit spending remains their worst enemy. They also agree that no single piece of farm legislation is going to solve all of their problems. However, the 1985 farm bill can be structured to offer much needed help to our nation's ailing agriculture sector while still remaining budget conscious. It can do this by targeting benefits to those most in need—the medium-sized farm owners.

After months of deliberation with farmers and ASCS officials, I have formulated a 1985 farm bill proposal which I am submitting for the record. I would like to expand on a few of the points in my proposal which I feel must be addressed. In particular, the acreage base system and production levels required of farmers in order to maximize program benefits need close attention. This proposal affects the commodity programs for wheat, feed grains, cotton and rice.

Because of annual adjustments from increasing or decreasing planted acreage, the current base system has denied farmers the ability to be flexible and diversify their base. I urge that adjustments in bases cease. Guaranteeing bases will allow farmers to diversify without risking reductions in their acreage base.

Another fault of the farm programs we've been under are that in order to maximize program benefits, program participants must produce on *all* allowable acreage. Last year, it cost $400 million to store and handle government-owned commodities which have accumulated because of program incentives to produce beyond our needs. To afford flexibility and to stop encouraging excess production, I propose that any participant who produces the program crop on 50 percent of his guaranteed base should be considered eligible for full program benefits. Additionally, when computing program benefits, a stable yield reflecting production levels under normal operating conditions should be used. These changes will permit a shift to planting permanent cover and other crops rather than providing incentives to devote production to surplus crops.

I differ with the Administration on where target price levels should be set. The 1985 farm bill must retain an economic safety net to prevent a collapse of rural America. After 50 years of farm programs and government interference in the marketplace, rapid elimination of income supports could devastate farming communities throughout the nation.

Rather than continuing efforts to control supply through acreage reduction, I favor taking away incentives to produce in excess. I am proposing that ten percent of a participant's guaranteed base be planted to permanent cover. This would allow some of the millions of acres of erosion-prone land to be taken out of production—promoting conservation rather than misuse of our natural resources.

The United States government owns $7 billion of surplus commodities which are uncommitted to food aid programs. I have introduced separate legislation which would facilitate the use of barter, to effectively dispose of unneeded commodity stockpiles. This common-sense approach allows us to use surplus agricultural products to our advantage rather than letting them add to farmers' economic detriment. The National Defense Stockpile comprised of strategic and critical materials not produced in the United States, is $10 billion short of the amount needed in the event of a national emergency. We are currently appropriating nonexistent funds to purchase these materials from other nations—nations that need the surplus food products stored in U.S. warehouses. A little horse-trading between the two inventories would better serve all involved parties.

Again, I thank the committee for the opportunity to testify and would welcome comments on any of the provisions offered in the farm bill proposal I am submitting here today.

FARM BILL PROPOSAL SUMMARY (WHEAT, FEED GRAINS, COTTON AND RICE)

Senator Nickles' proposal is based on the following: the present farm program has (1) failed to maintain farm income; (2) failed to hold down production; (3) many built-in incentives to produce beyond our ability to consume and export; (4) become costly to all taxpayers.

1. PROGRAM BASES AND YIELDS

The possible recomputation of crop bases every year based on increases for overplanting or decreases for underplanting, decreasing if not reporting, etc., must cease. Guaranteeing bases will allow farmers to diversify without risking reductions in their acreage base. Additionally, farmers have been encouraged by program incentives to produce on allowable acreage in order to maximize program benefits.

To afford flexibility and to stop encouraging excess production, any participant who produces the program crop on 50 percent of his guaranteed base should be considered eligible for full program benefits. Additionally, when computing program benefits, a stable yield reflecting production levels under normal operating conditions should be used. These changes will permit a shift to planting permanent cover, other crops, haying and grazing, etc.

2. MARKET-ORIENTED LOAN RATES

In order to compete effectively in international markets and to discourage expansion by foreign producers, commodity loan rates should be based on a percent of an historical average market price. Loan rates for all program commodities should be set at about 75 percent of the average market price over the last three years.

3. TARGET PRICES

The target price program should be continued to provide income support while not encouraging production beyond our needs. Target prices reflecting USDA estimates for cost-of-production should be considered in determining the target price.

4. TARGETING BENEFITS

Program benefits should be targeted to mid-sized farmers by limiting eligibility for benefits to the first $200,000 of production, based on gross sales. Larger producers would qualify for benefits on the first $200,000 of production, as long as they comply with all program provisions, but would have to market the remainder with no government assistance.

5. SET-ASIDE ACREAGE

Efforts to control supply through acreage reduction have been largely unsuccessful. Provisions to idle land should be limited to requiring an acreage equal to 10 percent of the cropland base on participating farms to be established to permanent cover (grass or trees) as part of a long-term conservation reserve.

6. SODBUSTER PROVISIONS

Farmers who plant new crops on highly erodible land would be ineligible for any federal assistance for those crops. A strong sodbuster bill, cosponsored by Senator Nickles, has passed the Senate twice, and has been reintroduced in the present Congress.

7. BARTERING SURPLUS

The farm bill should also include legislation to encourage the bartering of surplus commodities for strategic materials from other nations. Senator Nickles has introduced separate legislation to establish the barter system. This would help reduce current commodity stockpiles and enormous storage costs, while replenishing our National Defense Stockpile of strategic minerals.

Statement of Robert B. Delano, President, American Farm Bureau Federation

The American Farm Bureau Federation is the nation's largest general farm organization with a membership exceeding three million member families in 48 states and Puerto Rico. I appreciate the opportunity to appear before the Senate Agriculture Committee to outline our position regarding the 1985 omnibus farm legislation that will replace the Agriculture and Food Act of 1981 when it expires this year.

The 1985 Farm Bill is a priority issue for Farm Bureau. Our farmer and rancher members produce virtually every type of commodity grown on a commercial basis in this country; those directly affected by farm programs and those that do not come under the authority of this legislation.

The policies that our membership adopted at our 66th Annual Meeting in January are the result of extensive deliberation at the county, state and national levels of our organization. Our Board of Directors has held two meetings since our House of Delegates adopted our 1985 policies and has developed the framework of a legislative proposal for a farm bill.

We believe that sound farm policy must be based on letting market forces provide incentives between producers and consumers. It is imperative that farm programs adjust to the signals from the marketplace while giving assistance for orderly marketing, income supplement, production adjustment and export market share expansion as we move back to the market system for U.S. agriculture.

We recognize that farm program policy and legislation will not improve all of the conditions that have exerted a negative impact upon agriculture in recent years.

The prescription for fundamental and lasting benefits for agriculture is dependent upon a commitment to fiscal responsibility and reduced overall federal spending in order to promote economic growth through lower interest rates more favorable exchange rates, and increase U.S. farm exports.

Therefore, Farm Bureau proposes policy actions in all issue areas that will allow producers the opportunity for profit in agriculture. Improving net farm income is Farm Bureau's most important goal.

Farm Bureau policy adopted by voting delegates states:

"We support a farm program which will:

"(1) Maximize long-term opportunities for profit in agriculture;

"(2) Reduce existing incentives for overproduction at home and abroad;

"(3) Ensure price competitiveness for U.S. farm products in world markets;

"(4) Provide opportunities to reduce stocks through production adjustments and/or expanded demand;

"(5) Assure consumers of adequate supplies of efficiently produced products they wish to consume;

"(6) Cause a supply reduction program to be implemented when carryover exceeds workable levels;

"(7) Provide target prices as an income supplement for farmers to help them make the adjustment to a market-responsive agriculture;

"(8) Provide loan levels for all major export commodities to facilitate orderly marketing and price competitiveness. These levels should be related to a 3-5 year average domestic price. Loan levels should not provide incentives for production that exceeds demand in domestic and world markets. These levels should be adjusted annually by no more than 10 percent; and

"(9) Recognize that all commodities are interrelated and any change in supply, demand or price of one affects the others."

These principles provide the guidelines and are the basis for our specific recommendations for future legislation.

(1) Exports: Mr. Chairman, I would like to begin these remarks by commenting on agricultural exports because of their importance to improved farm income. I am Vice Chairman of the Agricultural Trade and Export Policy Commission. That Commission has had several meetings at which we have discussed the seriousness of the current export situation now facing American farmers and ranchers. It is much easier to define the problems facing us in world markets than to find feasible solutions to those problems. Nevertheless, we hope to develop some workable means to address some of our export problems as the Commission's work moves along and to furnish our recommendations to this and other committees of the Congress.

In the meantime, I would like to share with you some thoughts regarding certain ways that some of the problems facing us in world markets might be addressed in a practical manner.

Two traditional ways of enhancing exports have been through the judicious use of CCC export credits and through the use of the PL 480 or Food for Peace Program. These programs should be continued and improved. As a member of the Carlucci Commission on Foreign Assistance last year, I recommended that PL 480 export tonnages be doubled over present levels and that multi-year funding be made available to PL 480 recipient countries. In view of the need for food, which has been made worse by the African political and famine situation, I believe that a much stronger PL 480 program is justified and will lead to better U.S. cash markets as economic development improves in recipient countries.

Regarding CCC export credits, it is regrettable that the CCC credit revolving fund, which was part of the 1981 Farm Bill, was never funded and activated. There are still valid reasons for incorporating the revolving fund in the 1985 Farm Bill with funding made available to make it an effective export tool.

An intermediate CCC export credit program is needed to take care of export credit needs for terms of 3-7 years as provided for in the Agricultural Trade Act of 1978. This legislation should be more fully utilized.

The blended credit program, which unfortunately has been saddled with the requirements of the cargo preference law, needs to be made a part of new farm legislation with an exemption from cargo preference. As a matter of fact, all agricultural exports should be exempted from cargo preference requirements whether commercial or government assisted. There are other ways of financing a strong merchant marine without harming agricultural exports. We should not reduce our farm exports in our efforts to have a stronger American flag fleet. Farm Bureau will strongly support legislation to exempt agricultural commodities and products from the cargo preference law.

There may be some barter opportunities with some countries that need food and have oil or other materials or commodities that we need. We should not foreclose any such opportunities, but rather should seek ways to gain exports where such possibilities exist.

Regarding trade negotiations, we must give our trade negotiators the tools they need and our strong support to gain better market access and to resolve outstanding unfair trade practices such as export subsidies, which have eroded U.S. overseas' markets. In this respect, we would support what might be called a "bonus" export program.

Under such a program, "bonus" tonnage of farm commodities and products would be made available from federal farmer-held reserve stocks and CCC owned commodity stocks to lower U.S. export prices to offset the advantage of competing countries which subsidize their exports.

Mr. Chairman, these are some recommendations that we would like to see examined and considered by this committee as the export title of the 1985 Farm Bill is written.

I believe that in previous legislation the production side of the equation has been given more attention than the export side. In the new Farm Bill, we need to focus strongly on the export title.

U.S. farmers are tired of taking most of the world's agricultural production adjustments while competing countries expand their production and export market share. We must be more aggressive in export markets. This will require the devotion of considerable resources to exports, but it will be cheaper in the long run than expensive acreage reduction and storage programs.

(2) Loan Rates: We support loan rates that are tied to a 3-5 year average of market prices for the basic export commodities—wheat, feed grains, cotton, rice and soybeans. This recommendation recognizes the general success of the price support loan programs for both soybeans and cotton and suggests that the concept should be extended to include wheat, feed grains and rice. We believe, however, that loan rates should not be adjusted by more than 10 percent in any year.

We need to adopt this kind of flexibility in establishing loan levels so that major export commodities can adjust to world supply and demand conditions. Since the domestic market is growing very little, we must sell on the world market if agriculture is to continue to grow. Adjusting our loan levels according to market conditions is the first policy step to insure competitiveness in world markets. It provides a degree of uncertainty to our competitors and indicates that the U.S. will not continue with farm programs that subsidize farm and export subsidy programs of our competitors.

(3) Target Prices: Farm Bureau supports the use of target prices in the manner in which this policy was originally included in farm programs—as an income supplement to farmers. We support continued reliance on target prices and deficiency payments throughout the four years of our Farm Bill. We propose to freeze target prices for 1986 at the 1985 levels. In 1987 we would tie the target prices to a percentage of the average market price used to determine the loan rate. However, target price adjustment would be limited to no more than 5 percent in a given year.

This method of target price adjustment provides a transition period for producers. Freezing the target prices for a year will allow a brief opportunity for export programs to begin to function so that producers can evaluate the market conditions for the 1987 crops. Adjustments that might occur can be affected in an orderly manner.

We would support a $50,000 limitation that would apply to deficiency payments only. We believe that any land diversion payment should not be included in the payment limitation. Large producers should not be discouraged from program participation, which is necessary in meeting the objectives of reducing production.

(4) Acreage Reduction Programs: We believe that acreage reduction programs should be required when carryover supplies are excessive. Much of the political pressure that accompanies discretionary authority for acreage reduction programs can be avoided by using specific levels of carryover supplies to trigger the requirement for an acreage reduction program.

(5) Farmer-Held Grain Reserve: We favor the elimination of the farmer-held grain reserve. Rather than being the orderly marketing tool that it was intended, or serving as some sort of emergency food reserve, the farmer-held grain reserve hangs like a cloud over the market. All traders know that it is there and that it cannot stay locked up forever. Its presence has caused increased production by our competitors and reduced domestic and foreign use of U.S. wheat and feed grains.

Grain farmers have learned the hard way that they cannot store their way to market income opportunity. Had the federal farmer-held reserve not been such a "handy" tool for propping up market prices in an attempt to reduce federal taxpayer outlays for deficiency payments, we would have never accumulated the excessive wheat and feed grain stocks that gave need for a PIK program.

Farm Bureau has long understood the importance of orderly marketing and the role of the regular CCC loan program. The federal farmer-held reserve program was used to try to prop up grain prices to avoid Treasury outlays. In the process, our market shares have eroded.

Farm Bureau delegates voted to extend the regular nine-month loan for another nine months in place of the federal farmer-held reserve program. This surely will help wheat farmers avoid repeating the mistake of storing 1976 wheat for seven years through 1983. Locking U.S. grain away from the world market—from U.S. and world livestock producers—until the market reached government set prices, proved to be very unsound economics and costly to taxpayers.

(6) Dairy Program: We suggest continuation of the dairy purchase program but believe that the support rate should be tied to two measures of market conditions. First, we believe that the support price should be determined using an average of the previous three year's all milk price. This level will be adjusted effective October 1 of the marketing year.

Second, we believe that the basic support price should be adjusted if government purchases are not in accordance with desired levels. The Farm Bureau proposal will include specific adjustments in terms of a percentage of the support price that would be required when purchases are at any given level. This measure will also avoid problems associated with discretionary authority for adjustment of support prices.

(7) Other Commodity Programs: Sugar, peanuts, wool and mohair provisions of the 1981 Act will remain largely unchanged in our proposal. These programs have not been costly to taxpayers. We, therefore, would not support substantial changes to these programs.

(8) Conservation Reserve and Sodbuster Provisions: Our proposal would include provisions for a conservation reserve program for owners and operators of erosion-prone land to assist them in conserving soil consistent with budgetary limitations. Contracts of 7-15 years would be offered under which producers would convert erosion-prone cropland to less intensive uses such as pasture, permanent grass, legumes or trees.

We would also support using severe measures to discourage producers from plowing fragile land. Our proposal will declare any producer who brings fragile land into production ineligible for any farm program benefits on any crop in his entire farming operation.

Mr. Chairman and members of the Committee, I thank you for the opportunity to present our views on the 1985 Farm Bill. The policy that we have developed is representative of agricultural interest throughout the United States. Our leadership has worked long and hard to develop policy that we believe is sound, fiscally responsible and in the best interests of U.S. agriculture.

Farm Bureau looks forward to working with the Senate Agriculture Committee in the months ahead to develop the 1985 Farm Bill. I appreciate the opportunity to present our views and would be glad to respond to any questions.

STATEMENT OF BEN F. MORGAN, EXECUTIVE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER, DAIRYMEN, INC., AND CHAIRMAN OF THE BOARD, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. Chairman, I appreciate this opportunity to testify and I would ask that my entire written statement be included in the record.

I am Ben Morgan, Executive Vice President and Chief Executive Officer of Dairymen, Inc. and Chairman of the Board of the National Council of Farmer Cooperatives, which represents about 90 percent of the local farmer cooperatives in the nation. I commend you for conducting this hearing and stimulating the debate on farm policy.

On January 21, 1985, the National Council's Agriculture and Trade Policy Committee adopted a policy statement which begins as follows:

"In 1985, new farm legislation should be based on policy objectives which reflect the changing global economics of agriculture today. In addition to the traditional farm policy goals providing:

"Support for farm income, maintaining adequate supplies of food and fiber, and encourage orderly marketing of farm products;

"We need to add a fourth objective and that is to:

"Assure that U.S. agriculture is competitive in world markets."

While we pursue international competitiveness, we must also recognize the severe economic stress now facing many family farmers.

Mr. Chairman, we have heard a great deal about the farm credit crisis, and it needs attention. But the credit crisis is a symptom of an underlying root cause, and that is inadequate farm income.

For example, let us analyze the ratio of debt-to-income which tells us a farmer's ability to service that debt.

In 1974, the farm debt-to-income ratio was less than three-to-one. By 1980, the ratio was almost eight-to-one and in 1983 it was more than thirteen-to-one. Clearly, farm income is inadequate to service this debt load.

Therefore our primary goal should be to enhance farm income. Many argue that to do this we must be price competitive in the international market. We concur that steps must be taken to help us regain lost market shares but they must be done in a way that does not put the full burden of competing against other governments on the backs of farmers.

We must also recognize that world markets have been distorted by external factors such as grain embargoes, the over-valued dollar, and unfair foreign trade practices. If the government is going to saddle farmers with these adverse conditions, then the government has a responsibility to help farmers overcome the negative impacts.

In developing the 1985 farm bill, we believe that certain concepts are very important. Specifically, non-recourse loan rates and target prices should be maintained as the means of providing financial support. Loans should be operated as "marketing loans", which farmers would be allowed to repay based on the loan rate value or world market level, whichever is less. This will protect farmers while allowing U.S. commodities to move through market channels at competitive prices.

The payment limitation should be discontinued.

A long-term conservation reserve should be authorized to carry out multi-year land retirement of fragile, erosive land. Such a program will help conserve our natural resources and bring supply into better balance with demand.

We believe very strongly in fair trade. Unfortunately trade has not been fair. Agricultural exports are now projected to fall to $35.5 billion in fiscal 1985, due in part to the over-valued dollar and foreign export subsidies as witnessed in 1982 by the over $6 billion in export restitutions used by the EEC to expand their agricultural exports.

We must respond by using our agricultural abundance to expand market share and to counter unfair trade practices. Aggressive action is needed now. At the same time, we need to encourage longer-term market development.

Mr. Chairman, it is essential that an aggressive trade title be included in the 1985 farm bill to counter unfair trade practices, build world demand, and compensate for the effects of the over-valued dollar. Specifically, the legislation should provide for a spectrum of export credit programs tailored to fit the diverse needs of recipient countries. Surplus commodities should be used as bonus products and blended with U.S. aid programs to encourage their use. At the same time, such actions should not displace any commercial sales which would otherwise have been made. Programs should be designed to move those nations from "aid" to "trade" in their relationship with the U.S. New credit programs to be included would be a continuous line of credit guarantees and an intermediate export credit guarantee program. The P.L. 480 program should be extended and improved, with an emphasis on multi-year programming and infrastructure development in recipient countries to allow greater purchases of U.S. agriculture commodities. An Export PIK program should be authorized and implemented.

In closing, Mr. Chairman, I would say that there are not many new ideas in domestic farm policy. However, the "marketing loan" concept is a new approach which we believe has great promise. We strongly support it as a means of enhancing farm income while allowing U.S. products to be competitive in world markets.

At this point, Mr. Chairman, I would like to call on Council President Wayne Boutwell to demonstrate some examples of these economic concepts.

STATEMENT OF CORKY JONES, NATIONAL PRESIDENT, AMERICAN AGRICULTURE MOVEMENT, INC.

The American Agriculture Movement, Inc., in convention and meetings held across the country assembled and proposed the following to be included in the 1985 farm bill.

The 1985 farm bill must include:

Production Controls: establish a mandatory program through referendum by farm operators with quantity controls (bushels, bales, pounds, etc.) in addition to a 10%

acreage reduction. Production levels should be established according to inventory stocks.

Loan Rates: Loan rates set at not less than 70% of parity (the average cost of production) on all storable agriculture commodities including milk. Minimum non recourse loan term shall be 36 months with loan rates increasing 2% annually thorought 1996 and remain at 90% parity thereafter; storage rates for on-farm storage and commercial storage shall be the same.

Proposed Annual Loan Rate Increase

Year:	*Parity (percent)*
1986	70
1987	72
1988	74
1989	76
1990	78
1991	80
1992	82
1993	84
1994	86
1995	88
1996	90
1997	90
1998	90
1999	90

Food Reserve: A national food reserve shall be established (to guard against food shortage) and released only when a food shortage has been declared by the House and Senate agriculture committees. Inventory stocks of each commodity shall be set by the Ag secretary and shall be managed by the Commodity Credit Corporation (CCC).

Imports: All agricultural products (livestock, poultry, dairy, fish, vegetables, etc. . . .) shall be labeled as to the country of origin. Any processed or co-mingled product shall be labeled as such. All imported products shall have equal inspections and meet same standards as domestically produced products. Products containing residues of U.S. banned chemicals shall not be allowed to be imported into the U.S. Red meat imports shall be controlled by a price trigger and reflect a parity level consistant with other ag commodities and no ag product shall be allowed entry at less than the domestic price as provided for in the G.A.T.T. (General Agreement on Tarriffs and Trades) anti-dumping agreements.

Exports: The U.S. should use subsidies to maintain our market share in world trade and this device should include export PIK, adequate credit, interest-buy-down, etc. U.S. subsidies should match those used by foreign governments hidden or direct.

Farm Tax Loopholes: There should be a maximum write-off of $20,000 for non-farm income through tax-loss farming.

Soil Conservation: The existing soil conservation programs shall be continued and expanded in problem areas.

Farm Credit (FmHA): Reschedule farm debt on a case-by-case basis to allow the operation to meet cash-flow requirements necessary to continue operation. Terms of the loan (20 year maximum) shall be established by a county committee. The county committee shall be elected by farm operators in a county referendum and shall be a functioning loan committee of no fewer than five people! Three of which must be farm operators, elected by their peers which will in turn appoint two others, one from the financial community, and on holding a public office. New applications must be accepted for consideration and any economic emergency (EE), emergency disaster (EM), or operating (OL) loans not acted upon within 60 days must be automatically approved.

ASCS: County ASCS committees shall make all decisions relating to soil and water conservation practices, including cover crops, haying and grazing dates, etc. The ASCS community committee must be continued with no fewer committees than in place in 1980.

STATEMENT OF ROBERT M. FREDERICK, LEGISLATIVE DIRECTOR, THE NATIONAL GRANGE

Mr. Chairman and Members of the Committee: I am Robert M. Frederick, Legislative Director of the National Grange with headquarters at 1616 "H" St., N.W., Washington, D.C. The Grange is a general farm organization representing more than 400,000 members in 41 states. Since its beginning in 1867, the Grange has been deeply involved in agriculture policy and its impact on the social-economic conditions in rural America.

On behalf of the Master of the National Grange, Edward Andersen, I am pleased to have this opportunity to present the general policy position of the Grange on 1985 farm legislation. The Grange recognizes the tremendous task before this Committee and Congress in developing effective and meaningful food and agricultural policies to guide our nation as we enter the closing years of this decade.

The task ahead is further complicated by the fact that the nation's number one industry is presently still in the grasp of a farm depression that is just as severe, or more so, than the one that spawned the first triple A act of the thirties. We, therefore, must be sure that, in applying long-term solutions to present day short-term problems, we do not further endanger the farmers' financial ability to respond when the present world economy recovers and the global demand for agricultural products expands. At the same time, we must also guard against the continuation of food and agricultural policy and other government policies that are also deterrents to U.S. farmers' ability to sell their production on the world markets.

Mr. Chairman, the hearing schedule you have announced for consideration of legislation to replace present food and agriculture law is a commendable. The Grange has maintained since the debate on the 1985 Farm Bill began over three years ago that two important factors must be considered. First, the discussion must center on the development of a food and agriculture policy that meets the objectives of our nation. I do not believe we have addressed policy objectives in farm legislation since the thirties. We have passed numerous farm bills, but these have dealt with farm programs and not necessarily policy objectives. Secondly, in considering farm programs to meet our policy objectives, we must consider the structure of agriculture that exists today. We have not enacted farm programs that fit today's structure of agriculture. I hesitate to use the term "structure" because we have found that the mere mention of the word elicits an all too predictable response from the various segments of political and economic interests dealing with agriculture. We believe Mr. Chairman the hearing schedule you have announced will direct the attention of Congress to these two important issues. In adopting policies to guide the Grange during the 1985 Farm Bill debate, we have attempted to define a food and agriculture policy and then have adopted farm program changes to carry out that policy. (Attachment A)

In our judgment, if we define the objective we wish to achieve through our food and agriculture policy, the problems confronting our agricultural economy can then be addressed and more easily solved. We must answer the question, "What are the objectives of our food and agriculture policy?" I can postulate a wide range of policy objectives, but the decision as to what those objectives, in fact, are is reserved to the Congress and the Administration. For instance, is our objective to preserve and expand the U.S. share of the world market for agricultural products?

Is our objective to expand the value of U.S. farm exports?

Is our objective to improve the currently disastrous state of real net farm income?

Is our objective to reduce the U.S. Treasury exposure on farm program costs?

Is our objective to remedy the record of $123 billion U.S. balance of payment deficit experienced in 1984?

Is our objective to continue to supply an abundance of low-cost food that only required consumers to spend 15.9% of their disposable income in 1984 for food?

Is our objective to stabilize a badly deteriorated and still deteriorating economic situation throughout nonmetropolitan America?

Is our objective to adopt a posture that will allow the debtor nations such as Brazil, Mexico and Argentina to repay their loans to U.S. banks?

The list could go on and on, but everytime I pose questions such as these, I hear answers like "yes", and "all of the above." The problem with such responses is that the eight objectives listed are not mutually exclusive nor are they entirely compatible. Therefore, someone at some time must decide which of these or other objectives is most crucial. I have seen no real evidence to date that the issue of objectives and priorities among objectives have been or are being addressed.

However, in reading the Agriculture Adjustment Act of 1985 (AAA) as proposed by the Administration, I can assume that they are trying to meet some of the objectives listed above. The top priority of the proposal is based solely on budget consideration with a total disregard for its economic impact on farmers. Two other objectives that are in direct conflict in the AAA of 1985 are: (1) is our concern with export sales directed toward protecting and enlarging the U.S. share of the export market or (2) is it concerned with increasing the value of farm export sales in order to enhance farm income and to reduce the record 1984 trade deficit of $123 billion?

These are two very different and, in today's environment, potentially incompatible objectives. If our concern is directed towards market share with sales prices being of only secondary importance, we must be prepared to face the reality that areas such as Argentina have no choice but to dramatically expand agricultural export sales in order to meet payment schedules on their overseas debt.

There is no doubt in our mind that the Administration's farm bill is centered on making the U.S. farmer more competitive in world markets by reducing loan levels to "market clearing" levels. (You will notice that Grange policy supports "a flexible loan ratesetting mechanism geared to an appropriate index of world-market prices.") However, at the same time, the 1986 proposed budget for agriculture would make agriculture exports less competitive by proposing an increase in the origination fees on export credits. The budget outline retains the $5 billion in GSM-102 export credit guarantees for 1986, but it calls for a 15-fold jump in the fee charged for obtaining those loan guarantees. On sale of 100,000 tons of grain worth about $12 million, the present origination fee would require a loan guarantee payment of about $19,000 for six months credit and up to $53,000 for credit of three years. Under the new proposal of 5%, the buyers' cost of the origination fee would be $600,000. The cost per metric ton to the buyer would jump from a maximum of 83 cents to $6, making it more difficult, if not impossible, for the United States to compete with sellers from other countries. The driving force behind such measures is the impact on the budget and not increased U.S. competitiveness in world markets—federal policies working at cross purposes and the U.S. farmer paying the cost.

The Grange agrees with the Administration's goal of a market-oriented farm program policy and the efforts to reduce the budget deficit by reducing program cost. But the bill proposed has been constructed to fit within budget guidelines established by the Office of Management and Budget with little thought to the effect on farmers. Even those of us who want to see a reduction in government spending cannot support a farm program based solely on budget considerations. Considerations, as pointed out above, that at times are working at cross purposes with the market-orientation thrust of the new farm program proposals.

The AAA Act of 1985 is market-oriented in that it reduces loan levels to "market clearing" levels and proposes other changes in present farm programs, most of which decrease farmers security and, at the same time, increase his financial risk by removing public financial support but does little or nothing to enhance the markets farmers are expected to serve. Title I recommits the Administration to expanded exports but proposes no new export programs such as intermediate export credits nor does it increase funding for present programs. They propose to expand exports by lowering loan rates and by eliminating barriers to U.S. exports. The latter is something that has been ongoing for the past 20 years with little success.

With little assurance that the markets will be there to be oriented towards, it is no wonder the program has so few supporters. The opposition to the Administration's bill can be summed up simply. It cuts farm programs too far and too fast, especially in light of the farm credit crisis and provides nothing but hope that the markets will increase to offset the lost security present farm programs provide. The proposal, which is slated to last until the Year 2000, would cut farm program aid to $3-5 billion a year, the level of the 1970's, down from the $15 billion that would be spent if the present law continues. If agriculture stayed at its present low financial level, the $10 billion difference, most of it coming in the first years of the programs, would have to come from the market, and we do not see foreign markets expanding at that rate in the foreseeable future.

There are far more impediments to increased foreign sales than the level of the loan rate. Title I of the Triple A Act of 1985 alludes to the problem of increasing access to foreign markets by reducing or eliminating barriers to trade. In addition, the high value of the dollar presents a greater obstacle to increased foreign sales than the U.S. loan rate. In addition, our own U.S. government policies reduces U.S. farmers' opportunities to sell into the world market or to increase foreign sales of U.S. agricultural commodities. If we are to have a market-oriented farm program, then our own government should remove such impediments to increased foreign sales such as Cargo Preference and other actions that use U.S. agriculture's productive capacity as a tool for foreign policy.

We cannot export our problems regarding low farm income anymore than we should be called upon to absorb the cost of the domestic farm policy of our foreign competitors in world markets. We cannot expect other nations to accommodate our internal food and agriculture policy while we, as they, are adversely affected by each other's attempt to isolate our domestic market and force our surpluses into the world market. We have to understand our own and each other's food and agriculture policy and their interrelationship. These relationships have to fit into the political and social priority system of each trading nation, by they importers or exporters. I guess what I'm saying is that if we have an internationalization of agriculture, it follows that domestic food and agriculture policy of major exporting countries should also be if not internationalized at least be harmonized.

Thus far, we in the United States seem to have failed to recognize this new global environment, and we still want the rest of the world to play by our "free market" rules. The internationalization of agriculture must be understood. We have to recognize that the rest of the world is using a combination of mixed governmental and private measures that insulate their producers and consumers from the "free market" policy. Our trading partners are using a mixture of subsidies and special barter management to export their expensive value-added products and in some cases, raw agriculture products to the cheaper "world market system" and justify their actions by indicating that they know what it costs and they are prepared to pay the cost to maintain their agriculture structure and food system. We are, however, justified in our criticism of their system when the cost of that system is transferred to us or other third parties. But such criticism must also be accepted by us of our system when we attempt to force the world to accept our "free market" policy.

The Grange believes in a cooperative arrangement between government and the free enterprise system that will keep American agriculture economically strong so it can fulfill its ever-increasing role in the internationalization of agriculture as it relates to world trade and world peace. In obtaining this goal, the Grange agrees with those who state that the long-term solution to the economic strengthening of American agriculture does not necessarily lie in continued production controls and high farm price supports. As we curtail production through acreage reduction and higher loan rates, we just set ourselves up for the continued loss of our world markets. This is evidenced by increased grain production in Canada, Australia, Argentina, Brazil and others, and a gradual loss of our historic share of world markets.

However, in the shorter term, until this harmonization takes place and a new global system takes shape, acreage reduction programs and price supports must be considered if U.S. farmers are to continue to make their increased contribution to the nation's economy and foreign policy decisions. In fact, the Grange believes that such a program must and will continue to play an important role in American farm policy.

The economic incentives for such farm programs must emphasize financial assistance that is not immediately reflected in the world price. That is the intent of the target price concept, paid land diversion and conservation reserves programs. They provide economic incentives to farmers to comply with acreage reduction programs but are not directly reflected in the world price. In the longer term, a reduced supply will lead to higher domestic and eventually world price increases, but at a somewhat slower and not so easily determined rate.

Mr. Chairman, the bill that you have introduced meets many of our objections to the AAA of 1985 as proposed by the Administration. We commend you for your efforts in attempting to soften the transition to a market-oriented agriculture and for the provision you have added to assist U.S. farmers in exporting their production. We believe they are absolutely essential, and they have our support. We would strongly recommend that the language in present law that provides farmers with financial protection when trade embargoes are placed only on agricultural commodities. We believe that language is a strong deterent on any Administration from using embargoes on only agricultural trade. We would further recommend that the issue of contract sanctity be addressed in any new farm bill to further ensure our overseas customers that U.S. farmers are reliable suppliers. We especially applaud language in your bill that would exempt future export payment-in-kind programs, blended credit or emergency food relief shipments from U.S. cargo preference requirements. We would suggest that all commercial credit programs continue to be exempted from cargo preference requirements.

The Grange, since 1978, has called for the targeting of farm program benefits to that class of farmers that are most endangered of being forced off the land. We submitted a plan to U.S.D.A. at that time that called for variable deficiency payments tied to volume of production. It is but one method of targeting income supplement payments to that middle class of farmers who gross between $40,000 and $100,000 in farm sales. We are in agreement with provisions in proposed bills that places a limitation on payments and places a cap on the amount any one farmer can place under a nonrecourse loan.

Perhaps it is time to recognize that supply control programs are just too indirect a route to take if our objective is to keep families farming land that they own or can someday hope to buy. A direct income supplement with a means test appears to suggest itself as an appropriate device. It has been said that farm programs do not have a social responsibility. Granted, social objectives are not the primary driving force behind farm programs, but neither should farm programs and their administrators be oblivious to social consequences that farm programs and food and agriculture policy can cause. Therefore, the social implications of our overall food and agriculture policy should be given strong consideration during the development of that policy.

And let's not stop there. Let's look at other laws and programs and see where social policy and farm policy meet. The tax code is one such example.

In case the members of this Committee have not already read it, let me urge you to look at Pages 129 and 130 of the President's Economic Report to Congress submitted in 1984. Those pages show how dramatically tax policies are contributing to oversupply and overinvestment in agriculture. The authors cite accounting practices, capital depreciation, investment tax credits and capital gains treatment as examples of how agriculture has evolved into a high bracket heaven with shelter for all. But the shelter treats some investors better than it treats others. The report states bluntly, "Tax policy does not affect the profitability of all types of farms equally." It goes on to say, "People in higher marginal tax brackets (regardless of the source of that income) can benefit more from the tax provisions." But the real story of tax issues is embodied in the final sentence in the section: "In practice, losses from farm operations reduce taxes on other income by more than the total federal tax revenue from farm profits, implying that total farm income for tax purposes is negative."

In that statement, the report has admitted that farming in this country is a total tax shelter. That's not the way it was supposed to turn out. Those laws were intended to serve family farmers, but there is no caboose on this gravy train, and doctors, lawyers, oil company executives, butchers, bakers and candlestick makers are climbing on board in big numbers.

Just as we have failed to target our farm program benefits to family agriculture, we have failed to target our tax policies to those whom we intended to benefit. This new farm bill should begin the targeting process.

In summary, let me state where the Grange feels we should begin debate on the 1985 Farm Bill. We should examine our present program system in light of the changes that have occurred in farm structure over the years. We should attempt to target farm program benefits to family, owner-operated farming units while at the same time refusing to subsidize those who do not need assistance.

We need to dispense with rhetorical exercises over government involvement in agriculture and admit that farming and ranching are too important to leave unprotected. Let's admit to each other that agriculture is completely intertwined with the rest of our domestic economy and also with international markets where in neither exists a "free market" atmosphere.

This legislation should acknowledge the fact that farm acreage does not in itself determine farm efficiency, and good managers can go just as bankrupt as poor managers. Family agriculture is a concept involving values, strategic importance and other completely unquantifiable factors that don't fit nicely into economic efficiency models. Yet it is these unquantifiable factors that have given this country such a bountiful agricultural base with its benefits to all of society.

The Committee must initiate discussion with the Senate Finance Committee and other committees regarding tax policies and how they are undermining your efforts to foster and protect family, owner-operated agriculture. Along with targeting farm programs, we need targeted tax policies that recognize and delineate just what type of off-farm income or non-farm income we want to shelter with farming enterprises.

You are facing decisions that are not easily reached and that are not likely to be universally popular, but the owner-operated farm needs your attention. The Grange stands ready to work with you in this endeavor.

Mr. Chairman, we appreciate this opportunity to start the debate on the provisions of new farm legislation. Let's not lose sight of the fact that farm legislation is but our part of a food and agriculture policy for our nation. We look forward to your "Thematic" hearings and the commodity hearings that follow. We will be submitting the Grange's position on various proposals throughout the hearing process.

Please find attached (Attachment B) our suggestion regarding farm credit, conservation and agriculture research.

We thank you and the Committee for your kind attention and we will attempt to respond to any questions you or members of the Committee may have.

APPENDIX A

NATIONAL GRANGE POLICY FOR THE 1985 FARM BILL

The following is National Grange policy, adopted at the 118th Annual Convention in Portland, Maine, for the 1985 Farm Bill.

FOOD AND AGRICULTURE POLICY

Agriculture is the largest industry in the United States. The U.S. agricultural systems accounts for one-fifth of the gross national product and generates 23 million jobs. Agriculture contributed $20 billion to the U.S. balance of payments in 1983, partially offsetting a large trade deficit in the non-agricultural sector. Thus, agriculture is economically important to the whole nation. It is one of our most efficient and productive sectors, a sector that many feel has a distinct comparative advantage in production efficiency.

At present, approximately 112,000 farms—five percent of the total number of farms—produces just under 50% of the entire output of food and fiber originating in the contenental United States. These are operations that had annual sales of $200,000 or more in 1981. It is important to remember that these major producers are mostly family farms. The great bulk, somewhere around 95%, are individually owned and operated family farm businesses.

At the other end of the scale are the large majority of farms, 1.7 million of them, comprising 71% of all economic units classified as farms by U.S.D.A. These farms, with annual farm sales of less than $40,000, produce only 12.5% of total farm output. The great majority are part-time farmers who depend on off-farm income to meet their financial needs.

In the middle are the medium-sized traditional family farms. These make up a little less than one fourth of all farms, some 580,000. They are predominantly family-owned and operated, with the owner-operator engaged full-time in farming pursuits. Sales run between $40,000 and $200,000 annually. They produce 38.5% of the output of U.S. agriculture.

The present structure of agriculture, for the foreseeable future, will remain much as it is now. The real question, therefore, is how can a program or programs be developed to meet the economic, social and cultural conditions of these three diverse groups?

The small part-time producers will survive without the traditional federal farms programs. However, a combination of state/federal farm programs in the areas of research, education, health, medical service, roads, schools, etc. are important to the economic and social well-being of this group of nearly two million American families.

The group of farmers at the top of farm structure would also do well without federal farm programs. They can be best served by constructive trade and macroeconomic policies that are outside the realm of farm policy. They will benefit from government development efforts to stimulate the national economies of less developed countries so they have the capability to purchase their increased food requirements. Export credit assistance, export market development, consistent international trade policy, stable and reasonable valued currency, and good infrastructure in the way of transportation and port facilities. All farmers will benefit from improvement in the above policies as the production of large farmers would move more into world markets rather than being forced into the domestic market. Domestic policy to aid this group of large farmers would be in the area of research and a stable, economic climate of growth. In addition, they will require some safety-net of protection from vagaries of weather and actions of foreign governments that interrupt patterns of international trade.

That leaves the middle group of 580,000 U.S. farmers who produce 38.5% of the output of U.S. agriculture and depend upon farm income to meet their financial needs. Perhaps the most difficult task will be to devise a program to deal with the needs of these middle-sized family farms. It is this group of farmers who should be the major recipients of the economic benefits of federal farm programs. Programs should be developed that would assure these farms a return from the marketplaces, and from the farm programs that would enable the most efficient of them to continue to be viable contributors to out society.

We believe these farms are important to our national policy, not only because they produce nearly 40% of our total food and fiber but also because they are a vital part of the social and cultural fabric of rural America.

PROVISIONS OF 1985 FARM BILL

Commodity Loans

For the major commodities with such programs, a flexible loan rate-setting mechanism geared to an appropriate index of worldmarket prices. It needs to be kept in mind, however, that loan rates are not the sole factor in determining whether United States goods are competitive, the value of the dollar and the subsidy and importing policies of other nations being at least equally important.

Loan Programs are useful for cash flow and as a marketing tool. But the loan rate is unlikely to be useful in enhancing income because stocks accumulated in this matter must eventually come back onto the market. However, the program has stabilizing effects on prices and livestock and poultry producers have more secure feed supplies.

Reserve Program

The farmer-owned reserve program should be continued with limits placed on the amount of a specific crop any one farmer can place in the reserve. So this will not lead to greater use of the regular loan program and eventual build-up in government-owned stocks, a limit on the amount of a specific crop one farmer can place under loan should be considered. The Secretary of Agriculture should have the authority with guidelines established by Congress to set the loan rate and the release price for commodities placed in the reserve. Storage payments should be continued at a rate to cover the cost of on-farm-storage. The Secretary of Agriculture should have the authority to waive interest in line with the supply/demand situation.

Target Prices

Realign the target price deficiency-payment program totally away from promoting production, basing it instead on financial need or in relationship to volume of production (the lower the production, the higher the payment).

Production Control Programs—Conservation Reserve

Continuation of voluntary set-aside programs to be eligible for program benefits. Provisions for paid voluntary acreage diversion programs if producers first comply with voluntary set-aside. Cross compliance between crop programs is a requirement for eligibility.

Adjustments to be made in the individual acreage bases used in calculating commodity program benefits eligibility, to remove all incentives to bring highly erosible land into production and provide incentives to crop only the least erodible acres and/or those with comprehensive conservation measures in place and/or those on which practices are instituted that reduce the need for substantial irrigation in aquifer-threatened areas.

A program of long-term, paid conservation reserve perhaps of 20 million acres of cropland identified as highly erosive (and/or a major threat to ground water supplies) coupled with a short-term paid land conservation reserve program instituted when the farmer-owned reserve is expected to reach more than a normal carryover-stocks level with this land also required to be converted to soil conserving uses (with premiums for diverting more erodible land).

Dairy Program

In addressing the dairy problem of over-production, the Agriculture Committee recognizes that there are inconsistencies in the cost of production between regions.

Any equitable price and production stabilization program must further take into account the contributions to over-production brought on by incentives contained in many provision of tax shelters.

The dairy industry has undergone major changes with the passage of the Dairy Diversion Bill and with major concerns being expressed for the future of the dairy industry.

The National Grange will support legislation to establish a dairy stabilization plan to (1) reduce the cost to the government; (2) preserve the price support program based on the parity concept; and (3) establish a National Dairy Board to assist in the administering of the program.

A trigger mechanism must be timely, simple and responsive to prevent wide fluctuations between supply and demand. When the trigger mechanism calls for a reduction in supply, the following programs will be activated to control the production.

(a) An assessment program which takes into consideration the over-production in the different areas of the country rather than reduction in parity.

(b) If the over-production persists, the National Dairy Board will put into place a base price plan. (The base will be determined by using the previous three year rolling average. Participants in the previous diversion program would receive credit for their reduced base).

The above proposals are recommendations that mandate constant review.

National Dairy Product Promotion Program

The National Grange continues to support the National Dairy Product Promotion Program as a means to promote and increase the consumption of dairy products.

The National Grange also supports the concept of the National Dairy Board as an administrative authority over the promotion program. The board membership comprised of 36 dairy producers selected from regional areas of the United States shall continue to control the direction of promotion and research and be empowered to distribute the revenue collected as necessary to accomplish these goals.

Resolved that the National Grange support a twelve month extension of the time before the producer referendum is held (now set before 9/30/85) to approve or reject the current 15 cent assessment for the promotion program in the current Dairy Diversion Law in order that a fair trial may be given and results obtained of the dairy promotion program.

Resolved that before a further reduction can be made by the Secretary of Agriculture in the current price support level, that the Secretary recognize present regional successes in reducing current production, and that in those areas where production is in line with projected production goals, that no further price support reduction be made. In the time between 4/1/85 to 7/1/85, if a major increase in production takes place (making allowances for the normal seasonal variation), then the Secretary would activate the additional 50 cent reduction in price supports as provided by law on 7/1/85.

Conservation Credit Program

Be it resolved that the Grange supports Farmers Home Administration loan programs that provide needed long-term and low interest credit for soil and water conservation.

Soil Erosion Programs

Whereas, agriculture is the single largest industry in the United States; and

Whereas, the base for this industry is that we have been blessed with the climate and the vast resource of fertile soil coupled with the ability to produce the food and fibre for this nation and a surplus for importing countries; and

Whereas, there is much concern by the government and the public in general as to the excessive loss of topsoil by erosion; and

Whereas, since 1933, the federal government has subsidized programs of cost-sharing for conservation practices and presently state programs are being funded to assist with this effort; therefore be it

Resolved that the Grange use its influence in the continuation of funding for conservation work and those involved should be made aware of their obligation to society to maintain these practices if financial support is received; and

Be it further resolved that a conservation contract follow land ownership with penalties assessed for destruction of said practices before final contract date; and

Be it further resolved that for a farmer to receive the benefit of any Voluntary Federal Farm Program, they shall have an approved conservation plan.

APPENDIX B

FARM CREDIT

The Farmers Home Administration has been, and continues to be, an absolutely vital component in financing agricultural production. Proposals to eliminate or redirect the agency's purpose are completely misguided. Having made that statement, let me emphasize that FmHA is a troubled agency in need of a thorough policy review by Congress. In the past two years, the National Grange called upon Congress and FmHA to organize a special task force to study the agency's loan policies and administrative procedures. The need for such action is growing, and in light of the present farm credit developments, Congress and the Administration must arrive at a concensus on how best FmHA can serve rural areas and productive agriculture, taking into consideration present budget constraints.

As a beginning, the Grange has endorsed, in general terms, a bill that would have separated the various lending programs under FmHA responsibilities according to the types of services offered. We continue to support a lending department that serves production agriculture and specific farm housing needs separate from the rural development assistance programs. We feel such a distinction will add to FmHA's abilities to tailor lending efforts according to a community's needs while at the same time alleviating enormous work loads now inhibiting the ability of county FmHA personnel to adequately supervise farm production lending.

The Grange is of the opinion that farm production and ownership lending is in need of strong policy guidance. Now, we see an effort to steer FmHA away from direct lending and toward complete reliance on loan guarantees. The fact of the matter is that the two lending procedures serve different ends, and both are absolutely needed. We urge Congress to adopt a firm policy, with programs appropriate to implement it, that recognizes the need to supply direct credit at reduced rates to low equity, beginning farmers who show promise of future stability and independence from federal lending programs. Loan guarantees to commercial and cooperative lending agencies are also a proper function of FmHA, and they serve a unique need in addition to assisting the graduation from federal lending programs to commercial sources. However, I must again point out the need to guide these programs with a policy, enunciated in the clearest of terms, that the Farmers Home Administration is the lender of last resort to family farmers with relatively modest credit demands. Such a policy would then call for the Congress to set loan limits for both programs in accordance with moderate-scaled production needs.

CONSERVATION

The National Grange, at its most recent convention, adopted policy calling for an effective and workable conservation program, and part of that program recognizes the social relationship between resource protection and farm programs. Grangers feel that it is clearly in the public interest to require, as a condition of farm program eligibility, that farmers develop and implement a soil conservation plan for their farm. This so-called "cross compliance" requirement has been a heated topic of debate for years, and it has become Grange policy because it reflects both our committment to conservation and a recognition of something of a contract between farmers and the society in which they live.

The Grange also endorses a long-term conservation reserve that removes from crop production marginal or highly erodable soils. This conservation reserve would not only protect soil and water resources, it would also reduce our planted acreage that contributes to oversupplies of some commodities. In addition, we want to see Congress adopt the strongest provision possible to reduce the incentives to convert marginal rangeland to crop production—a "sodbuster" requirement. We endorse removing the eligibility of any farmer who puts marginal land into crop production from participation in any federally-sponsored farm assistance program for his entire farm operation, including crop insurance, disaster assistance, farm income and marketing assistance and similar U.S.D.A. programs.

RESEARCH

Since its inception, the National Grange has advocated research and new technologies in agricultural production. Clearly, the beneficiaries of this public investment in agriculture has been the consuming public. It has afforded tremendous advances in crop production yields, storage and shelf life and cultivation efficiencies. In animal agriculture, we see the benefits in improved conception rates, feed conversion and general animal health and food wholesomeness.

Ongoing research programs in crop and animal production are occurring at a healthy pace, and the Grange will actively work to convince Congress of the wisdom of continuing this solid support. However, we view with deep concern a trend we see on the horizon of agricultural research which is a disturbing problem in the making. Unless federal support of land grant colleges comes in the form of increased aid for post graduate students, it is possible that there could be a shortage of trained scientists in agriculture. Already there are dramatic shortages of agricultural engineers and certain plant scientists. We strongly urge Congress to examine our current research aid programs and to expand fellowship funding for post graduate education. The National Grange also would suggest that Congress place a greater emphasis on research to reduce the farmers' costs of production and increase his marketing ability, rather than total reliance on increased yields as a means of achieving profitability. In the long haul, American agriculture's competitiveness abroad will lie in our ability to produce commodities at a cost that is competitive with emerging agricultural giants such as Argentina, Brazil and some countries of Eastern Europe. By focusing entirely on increased yields regardless of costs involved, we are not doing the American farmer or rancher a service. We must recognize *total* production competitiveness.

STATEMENT OF CHARLES L. FRAZIER, NATIONAL FARMERS ORGANIZATION

We appreciate this opportunity to express our mounting concerns with the farm economy and suggest a modification of the farm program for the next few years. In view of the widespread interest in this matter and the number of proposals that have already surfaced in public discussions, I am today dealing only in broad concepts.

It is assumed that most real producer organizations cannot accept the Administration's proposals. Considerable time will probably elapse before specific legislation is sufficently developed to warrant detailed comparisons.

With those assumptions, our thoughts are summarized briefly to reflect tentative positions. We would hope to visit again with you as the legislative process evolves over the next several weeks.

Credit

The situation is deteriorating at a much faster rate than it was a few weeks ago. The likely consequences of doing nothing include widespread farm bankruptcies and closeouts, a growing number of rural lenders pushed into insolvency, and economic upheaval and hardship sure to spread beyond rural America. The alarming financial condition of farmers and ranchers calls for emergency action.

This debt emergency is amply documented. A flood of reports from the Department of Agriculture, the Federal Reserve Board, and other agencies document the deepening crisis gripping American agriculture. These reports document staggering equity losses, whole states without any income from farming and ranching, a growing number of agricultural banks and other farm credit institutions in deep financial trouble, and record high debt-to-asset ratios for the independent operators who are the backbone of this country's food production system.

It is widely reported that the collateral value of land, machinery, and other assets has plunged 50 percent or more in some areas. This is supported by the Federal Reserve Board's latest farm credit report, which shows farmers and ranchers lost more than $250 billion in asset value in the last four years. This unprecedented loss averaging $90,000 per farm is the result of four years of negative returns to both assets and equity. This lack of return on investment is for a nationwide industry that had assets of almost $1.2 trillion as recently as 1980.

Low farm income is one obvious reason producers are struggling to survive. A state-by-state report issued recently by USDA shows net income from farming plunged to $6,793 per farm in 1983, the lowest since farmers netted $5,184 in 1971. Eight states, including three near the top in farm production, had their entire farming and ranching industry operating in the red. They are Illinois, minus $5,845 per farm; Indiana, minus $1,545; Iowa, minus $1,891; Maine, minus $3,045; Missouri, minus $506; South Carolina, minus $639; West Virginia, minus $860; and Wyoming, minus $6,765.

Seventeen other states, including several where agriculture is a dominant industry, had net income of less than $7,500 per farm in 1983. They included Kentucky, $4,358; Michigan, $5,431; Minnesota, $7,202; Mississippi, $3,541; Montana, $2,153; Nebraska, $6,209; New York, $3,089; Ohio, $1,310; Oklahoma, $2,849; Pennsylvania, $6,630; Tennessee, $1,595; Texas, $5,313; and Virginia, $819.

This lack of income poses immediate danger to a growing number of rural banks and other financial institutions that serve agriculture. Twenty-two of the 40 banks that have failed since June 15 were agricultural banks. Chairman William Isaac of the Federal Deposit Insurance Corporation reported recently that the agency's list of nearly 850 problem banks is still growing because agricultural banks are being added faster than others can be taken off. FDIC reports that farm banks now account for 37 percent of all problem banks.

This is not a small farm crisis, as some suggest, or a problem caused by inefficiency or bad management. An Economic Research Service report shows farms hit hardest by the debt and cash flow crisis are mid-range commercial farms with sales of $40,000 and up. Nearly a third of all the nation's farms in the $40,000 to $200,000 sales class have overall debt-to-asset ratios of 40 percent or more, a high-risk position. A growing number have ratios of 70 percent or more, placing them in immediate danger.

There are no easy or low-cost solutions to the tragedy unfolding in rural American and little time is left to act. We hope you will use your considerable influence to persuade the President to sign the credit bill now on his desk, or override his veto, if necessary.

1985 Farm Program

The Administration has proposed a period of sliding scale price supports and declining limitations that would lead us to a so-called free market in farm products in five years. Considering the rate at which we are losing the efficient mid-range producers throughout the rural areas of the United States, we content that the Government is responsible for today's low prices—it should move in exactly the opposite direction.

Since these factors have been so widely discussed in the media recently, we assume every interested person understands that our farm prices and our rural economy are beyond the producers' control without a friendly government willing to work with us. The consequences of the large budget deficit, the imbalance in foreign trade, the high interest rates, the resulting high value of the dollar and the consequent decline in export trends, all point to a continuing squeeze in net farm profits. We can do little or nothing to offset those influences.

There is no relief in sight. There is only one answer, other than a widespread bargaining program run by farmers independent of the Government. That alternative would be to control production more effectively than in recent years, while increasing prices to stop the bankruptcies and sellouts.

We recognize that there will be tremendous pressure to reduce the budget commitment for a farm program. Our proposal is designed to accomplish this while increasing prices for the major commodities. For those who continue to harp about sales in the export market, even though we are expected to sell at less than the cost of production, there is an answer. We are willing to do so but since this course is obviously more beneficial to shippers, traders and the public at large, we propose that they help pay for the privilege of exporting these commodities. Producers should not be expected to shoulder the burden alone year after years.

The program is outlined in the attachment entitled Highlights, 1985 Farm Program Proposal. This was developed with the assistance and full concurrence of the membership of the National Farmers Organization in our recent National Convention. We would be happy to work with your staff in development of the legislative provisions.

HIGHLIGHTS 1985 FARM PROGRAM PROPOSAL FOR WHEAT, FEED GRAINS, COTTON, AND RICE BY NATIONAL FARMERS ORGANIZATION

The 1985 farm legislation proposed by the National Farmers Organization would modify and extend existing farm programs. It would stabilize prices at more reasonable levels and continue to assure an adequate supply of agricultural products for domestic and export needs. It would provide a bridge between the current farm crisis and the time when export expansion and a more sensible land use policy will bring production more nearly in balance with what the market will take at reasonable prices.

Its main program-modification provisions would: (1) target benefits to independent owner-operators; (2) reduce farm program costs because this is certain to be required by Congress and the Executive Branch; (3) enhance resource conservation in a practicable manner; and (4) help expand exports in a way that does not place the entire burden of such a policy on farm producers. The independent operators targeted are the mid-range producers who typically farm their own land and some rented ground and who rely almost entirely on farming for their livelihood.

These are the main provisions:

(1) Extend farm programs at least five more years.

(2) Eliminate the target price concept to reduce costs.

(3) Establish loan rates at 75% of parity and continue use of non-recourse loans to carry out price support objectives.

(4) Allow repayment of non-recourse loans at loan level plus interest or the market price currently received by farmers, whichever is lower. The market price approach is a workable response to those who desire market clearing prices on exportable quantities of wheat, feed grains, cotton and rice.

(5) Phase out the farmer-owned reserve because of its burdensome complications and rely on long-standing CCC authority to "reseal" or "extend" an individual loan on a particular crop at the producer's request. This privilege would be offered when the government anticipated a large takeover at loan maturity and wished to keep reserve stocks at the farm location. Storage payments would be made.

(6) Continue authority for the diversion requirement as a loan eligibility feature. A production goal would be set at a level needed to assure an adequate supply plus a modest carryover to protect the public against a shortfall caused by drought or other disaster.

(7) Require diverted acres to be seeded to a conserving crop or placed in a similar conserving use and authorize modest payments designed to offset the cost of required conserving practices.

(8) Deny price supports to crops produced on fragile land.

(9) Require a producer obtaining program benefits to comply in the same commodity on all farms under his control and to comply with all commodity programs applicable to his operation in order to secure the benefits of any of them.

(10) Exclude from program eligibility the production on land owned by institutions, government agencies and foreign entities. Exclude also the production of absentee partnerships, syndicates, and large corporations (including their subsidiaries), when their principal source of income is other than farming.

This proposal cannot by itself assure an end to the current farm crisis or guarantee prices at profitable levels for producers. Other action is needed to deal with the federal budget deficit, exorbitant real interest rates, the inflated value of the dollar in world trade, an exaggerated dependence on foreign markets, and other contributors to the current farm crisis. Some reasonable progress in solving these problems also must be made in order for any farm program to work well.

Adopting this farm program proposal and administering it effectively will improve net income for the owner-operator sector of agriculture. Its tight compliance requirements will help assure its effectiveness. The market price repayment provision for non-recourse loans is purposely designed to compel the government to set production goals at levels that will protect the interests of both taxpayers and producers. Although this approach may first be regarded by some as old-fashioned or out of date, it should properly be considered as a substantial move toward modernizing the farm program.

This proposal does not include recommendations on dairy policy or farm credit. We recommend early and separate action to extend the Dairy Diversion Program and to restructure farm debt.

NATIONAL FARMERS UNION,
Washington, DC, March 15, 1985.

Hon. Jesse A. Helms,
Chairman, Committee on Agriculture, Nutrition and Forestry,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: I regret that a representative of the National Farmers Union was unable to appear before the Committee on Thursday, March 8, as you began hearings on the 1985 Farm Bill, but, as you are aware, we were just concluding our annual national convention at that time.

Mr. Chairman, our delegates spent considerable time during the convention developing our recommendations for the 1985 Food and Farm Bill that the Congress must enact this year.

As a result of the delegate's actions I have prepared a comprehensive statement regarding the National Farmers Union's recommendations on that legislation and I respectfully request that the statement be made a part of the official hearing record of the 8th.

Even though this is a comprehensive statement Mr. Chairman, at any time that you or the Committee would wish us to appear before the Committee to discuss a particular issue or area of concern we will readily do so.

I appreciate your consideration of this request on behalf of the National Farmers Union and stand ready to be of assistance.

Sincerely,

ROBERT J. MULLINS,
Director, Legislative Services.

Enclosure.

STATEMENT OF ROBERT J. MULLINS, DIRECTOR, LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. Chairman and Members of the Committee: On behalf of the members of the National Farmers Union, I am pleased to submit to you the recommendations of the Farmers Union relative to the 1985 Food and Agriculture bill which you will be considering over the next few weeks. Rather than supplying the Committee with a series of individual statements on various aspects of the bill and on individual commodity programs, I am providing the Committee with a comprehensive statement dealing with those provisions.

These recommendations are a result of the deliberations and policy decisions made by the delegate body of the 83rd annual convention of the National Farmers Union which was held March 3-6, 1985, in Phoenix, Arizona. I might add that the delegates to that convention are exclusively individual family farmers and ranchers, so these recommendations reflect the collective thinking of men and women who are active producers of food and fiber.

This Committee, and this Congress, is faced with making serious policy decisions as to the future direction of agriculture and food policy in this country. Those decisions will have a definite impact on the structure of our system. Will we continue or accelerate the movement towards two classes of farmers, the super-big and the very small, or will we enact programs and initiate policies which will promote and protect those medium-sized family farms which have been the traditional source of our food and fiber supplies?

Simplifying to a degree, I believe the policy options available to us can be stated as three: first, we can continue a twenty-year history of putting band-aids on the program, patching here and tinkering there, but not really changing the present policy; secondly, we can move into a period of absolute minimum government cooperation in farm programs, in effect, return to a "risk-oriented" agriculture; or, three, we can forge a new partnership between those who produce the food and fiber for this country and those who consume those products. A partnership in which government plays a role by assuring fair prices are paid to farmers and fair and stable prices are paid by consumers, both domestic and foreign, for those products.

It is our opinion that the first two options are unacceptable if we want stability and prosperity in agriculture.

A combination of continuing over-production, continuing low commodity prices, continuing high interest rates, an over-valued dollar, and a precipitous decline in farm real estate values are all contributing to the demise of American agriculture as we have known it.

Even though this Administration has spent record amounts of money on farm programs over the past three years, bankruptcies and forced liquidations continue at record levels.

The time has come for Congress and the Administration to implement and manage a food and farm program for this country that is based on equity and stability.

The National Farmers Union believes there are some concepts which are essential to such a program:

First, it must be a comprehensive long-term food and farm policy which recognizes at the outset that fair prices for farm products is the key to keeping farmers in business and the rural economy healthy.

Second, the legislation must provide for effective supply-management programs which will balance production with effective demand, provide for an adequate reserve program and meet food-aid requirements both here at home and abroad.

Third, it must target farm program benefits to that sector of agriculture which we mean to maintain. We believe the day of open-ended farm programs is over.

And, finally, it must address in a comprehensive and long-term manner the seriousness of our soil and water conservation problems. The Congress must not look upon federal spending in the conservation area as expenditures but rather as an investment in our future national security.

On the other side, the legislation must also address the legitimate concerns and needs of our customers.

The legislation must provide for stability in prices to consumers. It must provide for reliability of supply. I am not talking here about a "cheap" food policy but a stable food policy.

It must provide for adequate supplies of food for those in our society, who, through no fault of their own, have inadequate resources to provide for an adequate diet.

And, finally, it must recognize that we have both humanitarian and national security interests in seeing that our food supplies are used to alleviate hunger in the world and to help developing nations improve and increase their domestic agricultural production.

To highlight their concern about the importance and immediacy of the situation, the delegates to the Farmers Union convention adopted a Special Order of Business addressed to the importance of an adequate food and farm program being enacted by the Congress. For your information, that special order is attached as Attachment A.

In order to more fully understand the basis and rationale of our recommendations, I quote the preamble to the Farmers Union's Policy Statement:

"The family farm is the keystone of our policy. Family agriculture is the base of viable rural communities and a strong society.

"We remain wholly dedicated to the strengthening of the family farm system and farmer cooperatives and resolutely opposed to an industrialized type of corporate farming or to domination of farm ownership and operation by off-farm or alien interests.

"Our American system of farming is the most viable system of food and fiber production; it is in the best long-term interest of the nation; and it provides the most widespread benefits to all in our society. Yet, its survival and continuance are not automatic nor assured in our society.

"Congress has often reaffirmed the 'historic policy of the United States to foster and encourage the family farm system of agriculture in this country,' but this federal commitment is meaningful only if policies and programs are implemented and administered to effectively achieve the results intended by Congress.

"The recommendations set forth in this policy statement are designed to reaffirm the family farm structure as the primary agricultural system, to assure rural and urban stability, national prosperity, the preservation of human and natural resources, and the dignity of the individual and family."

It is our strong feeling that on balance, the farm programs of the past fifty years have been helpful to farmers and to our society. If they have fallen short of their objectives from time to time, the fault has been that the programs have been weak, have been poorly funded or have been badly or unreasonably administered.

The shortcomings of the programs have been particularly apparent in the past decade as a result of the turnaway from supply management in the agricultural acts of 1973, 1977, and 1981.

The "market-oriented" label on recent programs has been a misnomer. These programs have been "supply-oriented" in concept and less concerned with fairness and stability of prices and income. As a result, the farm economy has become more unstable and insecure and prices have fluctuated more widely than before. We have been progressively losing export markets and export shares and are residual suppliers in the world markets. In that sense, more of this misguided "market orientation" will only aggravate problems.

The American people must recognize that food supplies and food policy are too important to be left to chance. Farm policy must not only seek abundant production but must provide the incentives and protection which will enable producers to sustain productive capacity over the long term.

Therefore, along with supply orientation, our farm and food policy must be "demand-oriented." It is an historical fact that the most devastating declines in farm prices and income—those which occurred in 1932–34, 1955, 1975, and 1981–84—have been caused more by weak demand than by oversupply.

To achieve the twin goals of stability and profitability in agriculture, we urge that the Congress work towards incorporating the following eleven principles in the 1985 legislation:

1. The legislation should be long-term law, rather than another four-year farm bill.
2. The wide discretionary authorities provided to the Secretary of Agriculture under previous farm laws should be drastically limited.
3. Congress should establish the base programs for commodities and the discretionary authority of the Secretary should extend only to the necessary ranges to allow effective adjustment of supply management programs to meet domestic and international demand.
4. Minimum price support protection must be established at cost of production levels.
5. Reserve programs must insure an adequate supply to meet domestic needs and export commitments.
6. The role of the Commodity Credit Corporation (CCC) should be expanded to include negotiation of long-term agreements with importing nations.
7. Deficiency payments should be made to producers in an amount representing the difference between the full parity price and the average market price. Payments should be made on a de-escalating scale, so as to direct the most financial aid to family farmers.
8. Realistic limitations on payments must be enacted to provide effective production and preference to the family farmer and the family-farm system of agriculture.

9. Cross compliance should be required for producers to be eligible for benefits of any single commodity program whenever supplies of one commodity are out of balance with other commodity supplies.

10. Mandatory supply management programs adopted through producer referendums should systematically replace current programs which permit a minority of producers to frustrate the supply adjustments made by the majority.

11. Non-farm corporations or alien owners should not be eligible to receive farm program benefits.

In order to achieve these goals for the various commodities, I call to your attention Attachment B of this statement which outlines specific program recommendations for the various commodities.

The manner in which farm programs are administered is as important as the programs themselves, therefore, we recommend the following policy directives concerning the administration of farm management programs:

PROGRAMS TO BALANCE SUPPLY WITH DEMAND

Production or marketing quotas, when needed, should be based on units of production rather than acres to strengthen the family farm structure of agriculture and provide adequate minimum quotas for individual farms.

Any entity engaged in farming that breaks out native grassland or wooded land should not receive benefits of crop-base history, price supports, or pay-base acres on crops raised on such land until after a 5-year proven yield.

Any farms participating in any payment or loan-producing programs should be encouraged to participate in available soil conserving practices for that farm, developed and implemented by local Agricultural Stabilization and Conservation Service (ASCS), Soil Conservation Service (SCS), and Soil and Water Conservation districts.

Set Aside

When the market price of a storable commodity is at or below 90 percent of parity, there should be an automatic set aside of not less than 10 percent on wheat and feed grains, soybeans, cotton, and rice.

In the absence of a cash incentive program, unrestricted grazing and haying on all set-aside acres should be allowed.

Any paid diversion program should provide equal treatment for wheat and feed-grains.

We oppose a bidding system to put land into a reserve. Normal cropping patterns and farm practices must be allowed to continue under set-aside regulations. Base acres for crop reduction programs should be determined by a 3-year average in order to reflect normal land use more accurately. In no case should base acreages exceed total normal tillable acres of the farm unit.

Those failing to participate in production regulating programs, but later seeking entry into these programs, should have their base acres determined on the basis of their planted acres when they last participated or the acres equivalent to the percentage of planted acres versus idle acres that are average for that county. Summer fallow and fall grazing are practices which should be allowed as a set aside. We further urge that farmers should be able to seed 50 percent of cropland acres and still be eligible to qualify for the program.

ASCS county committees should be granted authority to adjust the normal crop acreage and the crop acreage history on an individual farm basis, keeping in mind program objectives and equity between producers within the county and state.

The Secretary of Agriculture, as a condition of eligibility for loans and other commodity program benefits that may be provided, shall require that a producer not exceed the acreage base established for the farm, as may be adjusted periodically to maintain equity and fairness.

Administration announcements on crop acreage set asides should be made early enough in the season to allow farmers in all parts of the country equal opportunity to participate in the program.

In addition to the recommendations on domestic supply/management programs, the delegates addressed several other areas of concern to them and ones which will be the subject of action by this Committee. Among those issues I would like to briefly address are the following: export policy; P.L. 480 (Food for Peace); domestic food assistance programs; conservation; and federal farm credit policy.

EXPORT AND TRADE POLICY

American farmers today live and sell their products in a global food and agricultural economy. The prices they receive are dependent to an important degree upon what their commodities will bring in world trade. Such prices, in turn, are destined to be weak unless there are cooperative efforts among nations to maintain prices for raw commodities at fair levels and provide for orderly conduct of commerce.

A. Access to World Markets

Farmers need and desire to be assured that they will have the right to sell their products in world markets if they are to maintain their productive capacity to serve the world market. Farmers are concerned that there have been several stoppages of U.S. farm exports by government during the past 18 years, and that the power to restrict exports is institutionalized in the Export Administration Act.

Congress, in extending the Export Administration Act, should bar embargoes, suspensions, or other interference with farm exports, except in the event of a declared war.

We appreciate adoption of the contract sanctity provisions by Congress, but feel that this does nothing to increase prices in the event of a trade stoppage. Therefore, we urge Congress to require that 100 percent of parity price supports be automatically triggered if future embargoes are imposed, whatever the reason.

We recommend amendment to the Commodity Credit Corporation (CCC) charter to provide for establishment of an agricultural commodities marketing board, elected by agricultural producers, to negotiate and transact export sales of agricultural commodities produced in the United States.

This national agency should be the exclusive contracting agency for the sales and pricing of all agricultural commodities that are imported or exported, and should give preference to farmers' cooperatives in selecting agents of the board for handling export sales.

With the inclusion in the 1981 Farm Bill of a revolving fund for export credit within the CCC, the Congress has provided USDA with potentially useful tools for expanding sales with existing trading partners and for opening new markets. Similarly, the blended credit established by USDA in 1982 has some value in meeting the competition of other exporters who subsidize grain export credit.

However, these export subsidy programs, without measures to raise the level of grain export prices, are likely to be self defeating for the reason that they are, in effect, grain price reductions and are apt to result in a grain price war harmful to all exporters.

Access to export markets is important but, if there are to be future gains in export earnings, they will more likely have to come from higher prices on grains.

The exportation of American-grown food and fiber at prices that are less than the cost of production amounts to the exportation of our land, water, petroleum, and other natural and human resources for less than their true value. All international trade policies must be formulated with this vital consideration in mind.

B. International Trade Agreements

Negotiations for a new international grains agreement should be resumed promptly. Farmers Union recommends that a new grains agreement should provide for:

1. All trade in grains to be conducted within a range of minimum and maximum price levels. The minimum pricing levels must provide a return above the comprehensive cost of production to producers.
2. World reserves of grains to be maintained as a responsibility of both exporting and importing countries.
3. An improved "Food Aid Convention" to be supported by both importing and exporting countries, with the aim of providing for emergencies, promoting economic and market development, and generating employment for the world's hungry.
4. Equitable sharing among both exporting and importing countries of the responsibility for and the cost of reserve stocks and food aid, and adjusting market supplies in order to maintain prices within the desired range.

We recommend that international commodity agreements be considered for other agricultural products which are widely traded in international commerce and that the central purpose be to assure prices that are remunerative to raw materials producers and fair to consumers.

If for any reason an international grains agreement cannot be reached, we ask that grain exporting countries form an agreement, or the United States take unilateral action, to provide minimum world trade pricing levels that provide a return to producers to cover costs of production and a reasonable profit.

EMERGENCY FOOD PROGRAM

We support efforts to supply surplus American farm commodities to underdeveloped nations who are not now able to afford to buy the food they need, and assist in construction of adequate storage facilities, to feed their people.

Recognizing that there are millions of hungry people in the United States who are also deserving of such food aid, we recommend that such food aid and required funding for distribution also be made available to appropriate domestic charitable organizations.

The catastrophic drought in some twenty-four African nations should spur the United States and other able nations to use whatever means are available through the World Food Program and the United States Food-for-Peace program to cope with the starvation threat now besetting some four million people.

We recommend that stored commodities under CCC loan or purchased by the CCC be moved through the Food Bank Program when the storage life of the product has been reached.

We support the efforts of church groups and others in attempting to provide food for hungry people of starving nations.

Public Law 480 (Food for Peace)

P.L. 480, the Food-for-Peace statute, expires at the end of 1985, and we therefore ask the Congress to make it a permanent legislation as a part of the 1985 Agricultural Act.

Food-for-Peace, in its 30 years of operation, has lived up to its goal of "increasing the consumption of U.S. agricultural commodities in foreign countries and improving foreign relations of the United States." More than 300 million tons of surplus farm commodities valued at $33 billion, have been sent to some 110 countries.

P.L. 480 sales and donations have helped relieve famine and hunger and at the same time have helped in the economic progress of the lesser-developed nations. Many countries, which were once recipients of P.L. 480 aid, now are among the best cash customers for farm goods.

The 1985 amendments to P.L. 480 should expand the program, revitalize the market development aspects and provide authority for multi-year programming of Title I and Title II commodities.

FOOD AND NUTRITION PROGRAMS

We support continuation and full funding of federal nutrition programs as the only way in which to maintain the food-buying power of low-income citizens and to insure that at least a minimum nutrition level is provided for all Americans.

We urge Congress to continue federal responsibility for nutrition programs, reiterating the right of all of our people to at least a minimum diet, regardless of where they live. The USDA should continue to maintain administrative responsibility for federal nutrition programs.

Beginning with FY 1982 funding, school lunches were cut by $1.6 billion (30 percent) and 2,700 schools and 3 million children (1 million low-income children) dropped out of the school lunch program. Similar cuts were suffered by other child feeding programs. We urge Congress to reverse these cuts as an investment in our national well-being.

The Special Supplemental Food Program for Women, Infants, and Children (WIC) is serving only 2.3 of the 6.5 million eligible people who are at nutritional risk. In face of increasing infant mortality, we urge Congress to continue its support of WIC by funding it at its full authorized level.

The need for food stamp assistance increases with rising unemployment at the rate of $1 billion for each 1-percent in registered unemployed citizens. We urge Congress to support the mandate of the Food Stamp Act of 1964: "To strengthen the agricultural economy; to help achieve a fuller and more effective use of food abundance; to provide for improved levels of nutrition among low-income households . . ."

The Special Milk Program for children has demonstrated immeasurable benefits in helping to improve the nutritional status of school children by paying a share of the cost for increased servings of fluid milk. Funding has been severely reduced so that it now serves children only in schools that do not have any other child nutrition programs.

We commend the Congress for expanding this program in 1984 to become available to children in kindergarten who often are not eligible for other school lunch or breakfast programs.

CONSERVATION

Government Programs

Soil and water conservation programs have proven highly effective for pollution abatement and soil conservation.

These programs of conservation and resource inventory must be funded at levels that will insure the continued protection of our nation's soil and water resources. Funding cuts that jeopardize the continuation of USDA-SCS cannot be tolerated.

Such financing should be on a long-term basis, providing federal commitments for at least five years ahead and providing conservation assistance on a level designed to meet the needs as shown in the federal land conservation inventory and the appraisals under the Resource Conservation Act of 1977 and other federal studies.

The needs are so widespread and urgent that any "targeted conservation" program would, if it were honest and motivated by something more than budget savings, have to call for a vast expansion of federal conservation investment.

We request that federal financing to meet clean water and air standards of the Environmental Protection Agency (EPA) be available to farmers from funds appropriated by Congress for this purpose, and that such funds be administered through the farmer-elected ASCS committees.

We urge continued improvement and acceleration of the small watershed programs under Public Law 566.

The Great Plains Conservation Program, Agricultural Conservation Program (ACP), Rural Clean Water Program, Water Bank, and other soil and water programs have proven their value in achieving land-use adjustment and the conservation of land and water. Such environmental programs should be strengthened and expanded and include ACP cost-sharing for both replanted and new shelter belts, and noxious weed control.

We urge that ACP be funded at the $500-million level as originally authorized by the Soil Conservation and Domestic Allotment Act of 1937, and we strongly urge that the conservation cost-sharing delivery system for all rural federal conservation cost-sharing funds be through the farmer-elected ASCS committee system.

USDA BUDGET POLICY

The overall 15% reduction in USDA budget outlays for fiscal year 1986 includes damaging cuts in CCC price support operations and drastic cuts and terminations in some other activities.

Important savings could be made in CCC operations by returning to effective supply management measures, but the Administration refuses to embrace such strategy.

Among the most deplorable of the proposed reductions are the termination of ACP, disaster loans, aid to watersheds and RC&Ds, and the virtual end to rural housing and community development programs.

It has been recommended that REA electrical and telephone loans be reduced by 60% and that cuts of more than 20% be made in Food-for-Peace, agricultural credit, extension and soil conservation.

Beyond those devastating reductions, legislative recommendations will be made which would force further fund reductions.

We urge Congress to reject the White House budget requests for agriculture and proceed with the approval of adequate funding for needed programs.

Farm loan programs, which show as expenditures in the current year although they are eventually repaid with little or no cost to the government, should be entered as repayable investments rather than annual operating expenditures.

CREDIT PROGRAMS FOR THE FAMILY FARM

While the real solution to the agricultural debt crisis can only be expected from a genuine and lasting improvement in farm prices and income, major emergency credit actions will be necessary if hundreds of thousands of farm operators are to continue in production.

The situation is truly ominous, as evidenced by the following indicators:

1. Outstanding farm debt, as of January 1, 1985, was $212.1 billion.

2. Interest payments made by farmers on this debt load totaled about $23 billion in 1984, up by $2 billion from a year earlier.

3. Almost one-third of the $212.1 billion debt is owed by farm operators with a debt-to-asset ratio of over 70 percent; that is $7 of debt for each $10 in assets. Prospects for the survival of these farms appear doubtful.

4. Perhaps as many as one-third of all United States farmers are slipping towards insolvency, and more than 350,000 are considered to be in a highly vulnerable condition.
5. Delinquencies are running about 25 percent on Farmers Home Administration (FmHA) loans, at about 9.5 percent at large commercial banks, and at 4.6 percent at all commercial banks.
6. Actual bankruptcies in mid-1984 were running at a 2.6 percent rate, more than three times the level in 1982.
7. About one-fourth of the commercial bank failures in the United States in 1984 were banks which had 25 percent of their outstanding loans in farm loans.
8. Interest rates charged to farmers appear to be continuing in the neighborhood of 13 to 14 percent and above.
9. Plummeting farmland values are wiping out billions of dollars of family farm and ranch equity and threaten to further accelerate the trend toward failing lending institutions.

A. Farm Credit Policy

Rural America is on a collision course with economic chaos unless immediate action is taken toward massive farm debt adjustment and restructuring. Such debt adjustment and restructuring must be accomplished by the implementation of the authorities listed for the proposed Family Farm Recapitalization Administration. In addition, every family-sized farm unit must be made eligible for a direct or guaranteed loan using adjustments in the following order to permit repayment of debts:

1. Reamortizing or rescheduling existing loans to the longest available term.
2. Reduction in the interest rate to the level necessary to achieve repayability (similar to rural housing interest credit terms).
3. Deferral of as much debt at no interest as may be required until such time as net farm income would permit reinstatement.
4. A combination of reamortization, rescheduling, interest rate reduction, and debt deferral.

Such adjustments must undergo a "graduation" review periodically to determine whether they need to be continued. The loan ceiling on direct and guaranteed loans should be the same. FmHA should have authority to purchase individual loans of family farmers at a discounted rate from the farm credit sector, thereby converting them to direct FmHA loans and adjusting them as necessary for repayment of the full loan.

FmHA should also be authorized to issue bonds to cover part of the face value of mortgages of family-sized farm operators held by private and cooperative farm credit institutions, thereby providing necessary collateral to secure such loans.

Farms and land presently held by FmHA as a result of foreclosure, etc., should be leased, rather than sold in the current depressed land market. Preference for lease should be given the last operator of record if he is known to be of good character, has always dealt in good faith with FmHA and other creditors, and can demonstrate repayment ability under a rental arrangement. Next preference should be given to beginning farmers or other local family-farm operators.

FmHA should also be authorized to purchase (at a discounted rate) farmland which has been forfeited to farm credit institutions and redistribute such land in family-sized farm units on a similar lease purchase basis in the same priority order as above.

Until such adjustment programs are operational, it is necessary to establish a national moratorium on foreclosures and involuntary liquidations of family-sized farm units.

B. Farmers Home Administration

The FmHA, since its authorization in 1946, when it replaced the Farm Security Administration, has been given increasing responsibilities in a wide range of activities for serving rural America. Today, the farmer loan programs of FmHA have become a minor percentage of its total annual loan portfolio. The myriad of responsibilities of FmHA has made it impossible for the agency to give adequate priority to farm ownership and operating loans. The General Accounting Office has documented the inadequacies of FmHA's responsibilities in farm loan supervision. At the same time, Congressional hearings have demonstrated that USDA has been unable to carry out a coordinated rural development program.

Therefore, we call for the reorganization of FmHA. Its responsibilities in rural development, such as housing, community facilities, business, industrial, etc., should be consolidated with other similar agencies into a Rural Development Administration. Its farm loan programs should be brought together, with additional authorities, under a Family Farm Recapitalization Administration.

The Family Farm Recapitalization Administration must:

1. Be restricted to the assistance of family-sized farm units, as the lender of last resort.
2. Provide supervised loan programs for the recapitalization of family farms.
3. Have authority to provide long-term real estate loans, with adjusted interest rates and flexible repayment schedules in accordance with the producer's annual net farm income and crop production to assist undercapitalized and beginning farmers.
4. Have authority for production (operating) loans at adjusted interest rates and flexible repayment schedules.
5. Be authorized to develop innovative programs of finance and assistance for land transfer between generations and the establishment of new farm units, including programs such as the Saskatchewan Land Bank.
6. Work closely with state programs designed for beginning and undercapitalized family farmers, and be able to supplement and guarantee such state programs.
7. Become the primary agency within USDA for researching and developing programs and policies towards the goal of providing security for the family farm system of agriculture.

We call for immediate Congressional hearings for the reorganization of FmHA. We recognize that Congressional efforts are already under way to mandate that FmHA carry out the Congressional intent of its existing authority. We urge that these emergency measures be approved quickly so that reorganization of FmHA can be the next step in returning it to its original mandate and priorities.

FmHA supervisors should understand the program and follow the rules—including submitting applications to the county board for approval.

We have been particularly distressed by the lack of concern shown by the Secretary of Agriculture towards economically distressed agricultural borrowers.

C. Farm Credit System

National Farmers Union objects strenuously to the attack upon the farmer-owned Farm Credit System by the Treasury Department and the Office of Management and Budget (OMB).

We urge that the Administration also ignore similar recommendations being advanced by the President's Private Sector Survey on Cost Control, recommendations which would reduce the System's capacity to raise funds for agriculture by as much as 75 percent.

The 520 Federal Land Bank Associations repaid the last of their government capital in 1947, and the Federal Intermediate Credit Banks and their related 433 Production Credit Associations retired the last of their government capital in 1968, the same year as did the 13 regional Banks for Cooperatives.

The three sectors of the Farm Credit System obtain their loan funds by sale of securities in the money market. Government loan funds are not involved in Farm Credit lending, nor are the securities guaranteed in any way by the federal government.

Putting restrictions on how the Farm Credit System raises its capital or by impeding its access to the nation's money markets in any way would appreciably increase the cost of money to the System and its borrowers.

This would be an uncalled for and destructive attack upon the System, owned by its borrowers, which now provides farm operators $80 billion a year in borrowed funds.

The Farm Credit System should be allowed to continue to strive to ease the credit squeeze upon farmers as far as possible. Certainly, it should not be the business of government to hamper it.

Farm Credit System lenders should make every effort to work with financially troubled borrowers to help them remain in business. Providing credit for family farms should be the number one priority of the Farm Credit Administration (FCA). Long-range goals of the FCA should be directed toward providing agricultural funds for family farms.

RURAL ELECTRIFICATION AND TELEPHONE

The establishment of federally sponsored rural electrification and rural telephone cooperative systems not only helped American agriculture increase its productive capacity, but also generated demand for goods and services that spurred production and employment across the nation.

The ability of these cooperatives to continue supplying reliable and affordable services to farms and other sparsely populated areas of the nation hinges on their ability to acquire adequate capital.

The revolving fund and loan guarantee programs made available to electric cooperatives by the Rural Electrification Administration (REA) and the low interest loans and guarantee programs available for rural telephone service have proven to be effective and efficient means of meeting these financing needs.

In addition, technical standards and other assistance provided by REA over the years have been instrumental in the success the program has achieved over its fifty-year history. These loan programs and other services are provided by REA at minimal cost to the taxpayer, and result in benefits which increase the well-being and prosperity of all Americans, rural and urban alike.

National Farmers Union believes that the role of government in assisting consumer-owned, non-profit rural electric and telephone systems to provide reliable and affordable service in rural areas is by no means complete. We support continuation of a strong rural electrification and telephone program administered by REA. We ask Congress to authorize loan and loan guarantees to be made available through these programs at levels adequate to meet the capital requirements of rural electric and telephone systems.

National Farmers Union recommends further that Congress provide adequate funding for the administration of REA in its traditional form as an independent agency within the USDA, and take whatever steps are necessary to ensure that key staff functions, including those pertaining to the establishment of engineering standards, are retained within REA. We oppose suggestions put forth by the Grace Commission and others that the loan programs and other important services provided by REA be terminated or in some way "privatized."

Mr. Chairman, I realize that this is a rather lengthy statement, but as the Committee and the Congress go about their responsibility of enacting food and farm programs for the remainder of this century, we believe it essential that all viewpoints be adequately and fully presented to the Members.

We sincerely believe that adoption of the basic principles outlined in this statement will result in saving the family farm structure of agriculture, saving our rural communities, providing a stable and abundant supply of food and fiber at reasonable costs to our customers both here at home and abroad, and in the end, strengthening the entire American economy.

Thank you.

ATTACHMENT A

SPECIAL ORDER OF BUSINESS

Whereas: Delegates to the 83rd annual National Farmers Union convention have spent the last three days debating policy issues and listening to speakers commend family farmers for their service to this nation, their efficiency and productivity, and heard them decry the economic plight of family farmers; and

Whereas: As we leave this convention unified and with solidarity, we must have a short-term survival kit including immediate credit help and a long-range bill for family farmers; and

Whereas: We believe the current Reagan administration farm proposals will lead to exorbitant consumer food prices, devastation of the rural community, and a conglomerate corporate takeover of agriculture; then

Therefore: We challenge this administration, its appointees and advisors, and the U.S. Congress to enact an immediate program to preserve the family farm.

That program should include a mandatory supply management plan for all commodity producers;

A cost-effective program that ultimately will not take its price from the federal budget because farm commodities will be protected at a decent price to farmers;

To put America's family farmers on sound footing again, deficiency payments that are made to producers in an amount representing the difference between the full parity price and the average market price, to be made at a cost restricted on a de-escalating scale so as to direct the most financial aid to family farmers;

Our goal is a program that assures the family farmer a price that includes the cost of production plus a fair return.

We call for an immediate one-year moratorium on FmHA, SBA, Federal Land Bank and PCA agricultural loan foreclosures.

Therefore also: We stand united in solidarity at the end of this convention, ready to fight for rural America.

ATTACHMENT B

COMMODITY STABILIZATION PROGRAMS

1. Wheat and feedgrains

A price stabilization, supply management system should include:

a. An effective floor price to protect producers.

b. The farmer-held grain reserve program should be revised and improved so that it functions as an "ever-normal" granary for both farmers and consumers. The reserve should be expanded to include all non-perishable farm commodities.

To be effective for society, the reserve must be large enough to provide a realistic safety factor.

To be effective for farmers, the program must provide sufficient incentive to participate, and the loan levels and release and call levels must be such as will give a positive upward thrust to farm market prices.

A supplemental loan level should be established for all commodities destined for the reserve of at least 10 percent above the regular loan or support for all eligible commodities, and a release level should be set at not less than 120 percent of the supplemental loan level with a call level of not less than 140 percent of the supplemental loan level.

c. Silage corn should be considered in computing feedgrain program benefits.

d. Oats and barley should be included in any feedgrains program.

e. We support a minimum price law based upon a percentage of parity by use of marketing certificates.

2. Dairy policy

Farmers Union supports the concept of a paid diversion program for dairy.

Any supply management program should guarantee dairy producers a fair income in return for per-farm reductions in milk production and not reduce the dairy price support level for base levels of production.

We urge Congress to approve a dairy supply management program suitable to the needs of commercial family-sized producers, with accommodation for those just starting out, yet capable of curbing production in regions where larger dairy operations predominate. Like the current diversion program, the new program may be financed in part by dairy farmers themselves.

We urge the Congress to explore the possibility of instituting target pricing for milk.

We support continuance of the National Farmers Union Dairy Task Force.

We urge acceleration of market order consolidation to achieve uniformity in pricing and to maximize net return to producers.

The federal government and milk producing states should be encouraged to enact legislation adopting component pricing of milk—including the use of protein.

The FDA should increase the federal minimum standards for fluid whole milk to 8.7% milk solids non-fat; 10% for low fat, and 9% for skim solids non-fat; and further that the FDA, in the best interest of both consumers and dairymen, should do everything in its power to ensure that all milk marketed as fluid milk meet or exceed these standards.

We support the 36-member Dairy Promotion Board and the coming referendum for mandatory promotion of dairy products.

We would support expanding the authority of the Dairy Promotion Board to manage the disposition of the excess dairy products.

The leadership of dairy promotion programs should be directly accountable to the producers who fund such programs. To that end, we believe the boards of all national, regional and state dairy promotion programs should be elected by dairy producers rather than appointed by public officials. Producer referendums on dairy promotion programs should prohibit the use of cooperative bloc voting, require the use of mail ballots and take other measures to encourage the participation of all eligible producers.

As casein imports cost American taxpayers in excess of $600 million annually, major reductions in the current import levels of foreign subsidized casein should be instituted. If casein is to be used for food, it should be transported as a food and inspected by the United States Department of Agriculture (USDA). Since dairy imports displace millions of pounds of U.S.-produced milk annually, we urge Congress to add this annual import level to the 7.5-billion-pound trigger level in the dairy program in order to protect the support price to United States farmers.

Public programs and private efforts to reduce government-held dairy stocks should be implemented, including full funding of the school milk program.

Farmers Union supports strengthening the federal regulations governing foods which incorporate artificial dairy products.

We are opposed to regulations which allow the use of dairy terms, i.e., milk, cheese, cream, cheddar, etc., in labeling imitation and substitute dairy products. The use of dairy terms on these labels is deceptive to consumers and allows manufacturers of these products to benefit from the wholesome reputation of natural dairy products.

A dairy indemnity program, similar to that under the 1977 Farm Act, should be reinstituted.

Recognizing that brucellosis continues to be a problem for livestock producers, Congress should provide adequate funding for the eradication of this disease.

American dairy farmers are currently producing more milk than is being consumed domestically. In order to help alleviate our current surplus, every effort should be made to increase consumption among those Americans who currently cannot afford to purchase those products.

We urge the USDA to establish a pilot program which would assist low- and moderate-income families to purchase dairy products, possibly through the use of consumer discount coupons.

We further urge the United States Secretary of Agriculture to issue "bonus" food stamps designated specifically for the purchase of real dairy products.

3. Oilseed crops

Oilseed crops, such as soybeans, cottonseed, and sunflowers, are taking on increased importance in the farm economy and in our export earnings. To protect the interests of producers of these commodities, more adequate support levels are needed and producers should have the option of using supply management measures and having access to the farmer-held reserve.

4. Cotton

We oppose basing the cotton loan on a fixed domestic spot market formula or the vagaries of a particular foreign cotton exchange. The cotton loan should be set on the same basis as other major commodities. Loan price premiums and discounts for grade and staple should be based on weighted actual market sale prices.

All cotton should be classed by the USDA with instrument grading being paid by USDA.

We oppose any provision in the 1985 Farm Act which would trigger importation of upland cotton.

We urge adoption of a provision making it unlawful to cut or otherwise mutilate a tied and bagged bale, unless necessary to reidentify the bale.

Permitting reclassing of government-owned cotton by processors or exporters discriminates against the producer and strong local markets at harvesttime.

We, therefore, urge that government regulations be revised to assure that the first classing of cotton prevails. The grade card showing weight, grade, and quality should be permanently affixed to the compress ticket from the time the bale is sold by the producer until it is processed.

5. Tobacco and Peanut Program

a. Tobacco: We call for strong enforcement of the existing federal law relating to grading and selling of tobacco. We should take interest in and support, when feasible, alternative marketing systems and concepts which increase farmers' marketing control over their commodities.

We urge that the poundage allotment be brought into balance with supply and demand.

Any contract should protect both the farmer and warehouses equally at the time of delivery.

b. Peanuts: Since 1936, the peanut program has operated successfully for producers, as well as providing stable supplies for consumers at fair prices. A continuation of both the quota support price system and supply control is mandatory for the peanut program's continued success. We recommend:

(1) The 1985 national quota price support level be set at $750/ton with no price differentials for types of peanuts.

(2) The minimum quota poundage for 1985 should be established at 1,600,000 tons. We recommend for the 1985 farm bill that the minimum quota poundage for 1986 be established at 1,600,000 tons. For subsequent years, estimated domestic consumption plus a 10 percent carryover be established as the quota poundage.

(3) The support rate on "additional" peanuts should be a rate estimated to result in no program losses to CCC.

(4) Maintain area grower associations.

(5) Carryover provisions should be for more than one year. The contract date for contracting additional peanuts should be before planting season begins. Provisions should be made for adjusting the farm yield base poundage for changes in cultural practices. Land cost should be included as a cost of production.

6. Livestock

We call on the officers and directors of National Farmers Union to proceed, in cooperation with other farmers' organizations, with efforts to establish a farmer-controlled nationwide computerized electronic marketing system for livestock.

We support legislation which will permit antitrust action to be taken by individuals or groups of producers affected by monopolistic practices, and which should provide for restitution for economic injury fully in accordance with anti-trust laws.

We support legislation to overturn the Supreme Court's Illinois Brick decision in which the Court ruled that only direct purchasers may recover damages directly from a manufacturer who has engaged in price-fixing. Consumers purchasing from retailers, suppliers, or other middlemen would be denied any means of redress even if the middleman passes on the overcharge to consumers.

In addition to removing the right of individual consumers to sue, the Court decision also threatens the right of state attorneys general, who were recently empowered to sue price-fixers on behalf of the citizens of their states in the Parens Patriae legislation enacted by the 94th Congress.

The ability to sue for damages is important, both as a matter of equity to compensate individual consumers and suppliers who are victims of price-fixing damages and as an effective deterrent to antitrust violations.

Therefore, we support legislation to amend the Clayton Antitrust Act to make clear that a person who suffers indirect as well as direct harm can recover damages for price-fixing.

We support adoption of legislation along the lines of the Fair Meat Trading Act, which proposes to license commercial meat price reporting services, provides severe penalties for false reporting of sales or prices, creates a Meat Industries Standards Board, and directs the USDA to prepare guidelines for a computer-based livestock marketing system.

To protect livestock producers from unfair competition and monopolistic practices, Congress should amend the Packers and Stockyards Act to strengthen its enforcement provisions, with effective penalties for violations.

We urge price stabilization programs, modeled after the wool incentive program for all livestock.

The large proportion of all fed cattle being marketed at custom feedlots requires vigilance by the USDA over those marketplaces in order to prevent conflicts of interest and to maintain a strong competitive market system. We urge USDA to reinstate its prohibition of ownership or control of custom feedlots by packers. We commend USDA for requiring registration and bonding of custom feedlot operators engaged in market agency or dealer activities.

We urge a brucellosis eradication program requiring calfhood vaccination, with adequate federal funding.

We urge Congress to control the importation of lamb which is causing serious damage to our domestic sheep industry. We recommend that Congress incorporate the following steps to protect American sheep producers, as well as consumers:

a. Investigate the pricing practices of foreign countries on United States markets during seasonable peaks of domestic lamb marketing.

b. Require conspicuous labeling showing point of origin, date of kill, whether it was frozen, and the date or dates it was subsequently refrozen.

c. A countervailing duty to offset subsidies paid to foreign lamb producers.

d. Require 100 percent of all meat imports be inspected and meet the same sanitary and quality standards as American-produced lamb and red meats.

7. Sugar

With world raw sugar markets having dropped as low as four cents a pound and with negotiations for renewal of an International Sugar Agreement (ISA) having collapsed as a result of lack of leadership by the United States and the European Community, adoption of a stronger domestic sugar program in the 1985 Farm Act becomes imperative.

Without an adequate domestic program, the United States sugar beet and sugar cane industries will disappear, eliminating jobs in the processing sector and leaving consumers at the mercy of an unstable world market.

The sugar title of the new long-range farm act should provide for a stabilization level expressed in parity and in line with projections of the cost of production.

Negotiations for a new ISA should be opened soon with the aim of including economic provisions to stabilize prices within a fair range.

8. Rice

We urge Congress to provide for a rice program which will assure a reasonable balance between supply and demand as a basis for improving the price support level, toward the objective of full parity at the earliest date.

In the absence of adequate demand, we unalterably support:

a. Limiting production.
b. Export subsidies (as our competitors do).
c. Expansion of P.L. 480-type programs.

9. Dry edible beans

Existing law should be amended to make dry edible beans eligible for price support loans.

10. National Wool Act

Congress should permanently extend the Wool Act with incentive levels to be based on 100 percent of parity.

11. Mushrooms

If the White House or the International Trade Commission continue to refuse to protect the domestic mushroom industry from unfair foreign competition, we urge the Congress to pass legislation to do so, including authority to impose variable tariffs on imported mushrooms used for canning. Such variable tariffs should be equal to the difference between the price of imported mushrooms and the domestic cost of production (including labor and taxes) on mushrooms used for canning.

Imported mushrooms should be required to meet the same health, sanitation, pesticide, and species standards and requirements imposed upon domestic products. Imported food products containing mushrooms, either processed or unprocessed, should be subject to the same inspection as domestic products, should be labeled as imported, and should be subject to tariffs.

Fresh mushrooms, sold at retail, should be inspected by the USDA for quality and wholesomeness under the fruit and vegetable act.

All buyers of mushrooms should be bonded to cover mushroom purchases.

12. Honey

We urge Congress to continue the present honey price support program in the 1985 Farm Act.

STATEMENT OF JOHN R. BLOCK, SECRETARY OF AGRICULTURE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman and Members of the Committee, it is a pleasure to be here to help initiate the legislative process that will ultimately decide the future of our agricultural sector. Early last year, I began the preparation of our agricultural legislation by holding a series of listening sessions throughout the country to seek input from farmers, agribusiness, and consumers on the future direction of our agricultural policy. While a wide variety of views were expressed, there was one common and overriding theme in these sessions—the current agricultural programs are simply not working!

Under the 1981 Farm Bill the Federal Government will spend over $63 billion on commodity programs that have directly benefitted only about half of U.S. agriculture. Despite these expenditures, U.S. agriculture and its related businesses have still not experienced the economic recovery that other sectors of the economy have witnessed. In fact, in just the five months ending this April, the Commodity Credit Corporation will have put an additional $12 billion in cash into the farm sector. And some feel even more direct Government assistance is necessary!

More of the same is not the answer to agriculture's difficulties. Over 50 years ago, in 1933, the Agricultural Adjustment Act laid the groundwork for current farm programs. The 1933 Act was the Government's response to an unprecedented economic crisis in farming. It is apparent however, that the New Deal programs are not working for today's agriculture. The sooner we respond to the realities of today's agriculture with appropriate agricultural policy, the sooner we will achieve our common objective of a growing, productive and profitable agricultural sector.

We now have the opportunity to chart a new course for agricultural policy, one that recognizes the strengths of our agricultural sector and allows our farmers to take advantage of these strengths. The Agricultural Adjustment Act of 1985 (AAA) is designed to achieve this redirection. If it is implemented, U.S. agriculture will continue to be one of the most efficient, productive and competitive industries in this country and, indeed, in the world.

One of the most important ideas to keep in mind as we design a new agricultural policy is that other policies have become equally important—or perhaps even more important—to the sector's well-being. Agriculture has become integrated into the broader economy, and its health is very sensitive to the levels of world economic activity, interest rates, inflation and exchange rates.

Today, a one-percentage point change on the general inflation rate results in about a $1.5 billion change in annual farm production expenses. Farmers now purchase more than three-fourths of their production items from outside sources, compared with about one-fifth in 1930. Besides production costs, inflation also pushes up land values—for example, the inflationary spiral of the 1970's pushed land values up at annual rates of nearly 15 percent. Of course, once inflation had fallen relative to interest rates, land values began to drop—in some cases to 1977 levels in some Cornbelt and North Central states.

As American farms have expanded in size, farmers have increasingly used debt to finance purchases. With increasing debt and higher interest rates, interest expenses now account for nearly 20 percent of farmers' total cash outlays, compared to only 10 percent in the early 1970's. A one percentage point change in interest rates on all outstanding farm debt may translate into a $2 billion to $3 billion change in net farm income.

While high interest rates increase farm expenses, the increasing value of the dollar has reduced agricultural exports. We have seen ample evidence of the effects. From 1980 to 1984 the weighted average exchange value of the dollar increased by nearly 60 percent and the value of our agricultural exports declined by nearly 20 percent.

In addition to the strong dollar, the lingering effects of the world-wide economic recession have contributed to the 10 percent decline in export tonnage experienced since 1979/80. Developing countries, which were hit particularly hard by both the recession and tremendous debts financed at high interest rates, account for over a third of U.S. agricultural product exports. Total U.S. agricultural exports now account for production from about 100 million acres.

In sum, progress in achieving desired economic growth, keeping inflation low, and reducing the Federal budget deficit could very well have a greater impact on the well-being of farmers over the next several years than farm programs. As agricultural policy is developed in the coming months, it is important that we not lose sight of these linkages or forget that the linkages will become stronger and stronger as the agricultural economy continues to change in character and composition. Domestic farm programs alone cannot ensure a healthy agricultural economy, but they can do irreparable damage if they are not based on the realities facing agriculture.

While I do not expect unanimous support for every provision of the Agricultural Adjustment Act of 1985, the basic principles and objectives that underlie the development of this legislation must be achieved if agricultural legislation is to reflect the needs of today's agriculture.

Long-Term agricultural policy. The AAA of 1985 focuses on creating a policy environment that will be relatively stable and predictable, so that farmers and agribusiness can make realistic investment and production decisions. This contrasts with the current environment, in which agricultural policy itself is a source of uncertainty. We now respond to short-term problems without providing any effective long-term solutions.

Market orientation: Price and income support levels in the AAA will be tied to a moving average of past market prices. Farmers will then have an opportunity to respond to market signals, rather than producing more than there is a demand for in response to the artificial support rates set by Government programs.

Enhanced U.S. competitiveness: In recent years, the rigid and high levels of U.S. price and income supports have played a part in making it difficult for U.S. agricultural commodities to compete in the international marketplace. The AAA of 1985 will allow prices to move to world levels and will phase out acreage reduction programs, thus permiting our farmers to expand their markets. In addition, the trade title contains measures that will lower barriers to imports and reduce unfair competition, so that our farmers will have greater market access.

Family farm emphasis: The AAA is designed to provide full income protection for family-sized farms and lower degrees of protection for larger enterprises through a payment limitation feature. This feature is designed to correct the shortcomings of the existing programs which provide the largest share of federal benefits to the largest producing farm.

Orderly transition: The AAA provides for a five-year transition period from current programs to more market-oriented programs. This will enable farmers to assess their operations and decide how best to manage their resources in the new environment. The current programs have their roots in the 1930's and they cannot be eliminated overnight. A safety net must be put in place and a transition to that concept must be provided.

Equity and consistency: The legislation will, after the five-year transition, provide the same relative level of income and price support to each program commodity. It also integrates commodity program policy with other agricultural programs and policies, so that they are not working at cross-purposes.

Mr. Chairman, I ask the members of the Committees to keep these principles in mind as I summarize the major provisions of the AAA of 1985.

MAJOR PROVISIONS OF THE AAA OF 1985

The domestic farm program provisions of the 1985 AAA are designed to provide farmers with a base for making long-term decisions. This is accomplished in part by proposing that the AAA's programs become permanent law and by repealing the 40 to 50 year-old permanent programs that were authorized as part of the 1930's legislation. More importantly, the AAA would substantially reduce government interference in the price signals farmers receive and in the production decisions they make so that they are better able to adjust to actual market conditions. The AAA provides for a transition from high and rigid price supports to flexible and market-clearing price supports and gradually phases out acreage reduction programs, quotas and allotments which keep low-cost American products from competing with those of less efficient foreign producers.

Other major provisions of the AAA address exports and trade, resource conservation and agricultural credit. These provisions are consistent with the domestic farm program provisions in that they minimize government intervention, direct or indirect, by establishing programs that emphasize market expansion and minimize production incentives not consistent with market realities.

The major provisions of the Agricultural Adjustment Act of 1985 include:

Wheat, feedgrains, cotton and rice

Loan rates are based on 75 percent of national average prices received by producers during the immediately preceding three years, with no minimums. This will provide a safety net, but in most years will not interfere with the functioning of the market.

Target prices are based in 1986 on 100 percent of national average prices received by producers during the immediately preceding three years; this percentage would decline five-percent each year until it reaches 75 percent for the 1991 and succeeding crops.

An acreage reduction will be required of program participants at the following levels: 15 percent—1986 crop year; 10 percent—1987; 5 percent—1988 crop year. For the 1989 crop year and thereafter, the authority for acreage reduction or other supply control programs would be eliminated.

Soybeans

The soybean program would continue to rely solely on loans, but the loan rate would be determined in the same manner as for wheat, feedgrains, cotton and rice. No target price or acreage reduction program would be available for soybeans.

Dairy

The current dairy purchase program would continue to operate in fiscal years 1986 and 1987 with the support price adjusted downward if expected government purchases exceed specified levels.

Beginning in fiscal year 1988, the program would be converted to a direct payment program with the target price calculated as a declining percentage of the market price for all milk for the preceding three years, in the same manner as the other commodities. Payments would be calculated as the difference between the market price and the target price.

A task force would be appointed to review the need for Federal milk marketing orders, and to assess the impacts of the current program as well as feasible alternatives, with the purpose of recommending desirable changes.

Peanuts

The current quota system will be phased out.

Loan rates are set at the lower of 75 percent of the previous three-year moving average market price or $250 per ton, and loans would be available to all producers.

Direct payments will be made only to producers who hold quotas for the 1986–1990 crops. Thereafter, all producers will be eligible for payments. The payment will be the difference between a declining percentage of the market prices for the preceding three years and market prices.

Sugar

Beginning with crop year 1986, commodity loans are available at the rate of 12 cents per pound, or 75 percent of the three-year moving average of U.S. market prices, whichever is lower.

A direct payment program to growers will be established for 1986 and thereafter. The payment rate will be phased down during the five-year transition program. So that for 1991 and subsequent crops, the payment would be the amount by which the season average price is less than 75 percent of the three year average.

Finally, the AAA of 1985 will maintain a direct payment program for wool and mohair and eliminate the honey price support program which benefits only a small number of producers at tremendous cost per producer. The payment rate for wool and mohair will be based on a declining percentage of the market prices for the preceding three years.

All commodities will be subject to limitations on price support loans and deficiency payments. Nonrecourse loans will be limited to a total outstanding principal balance of $200,000 per producer for all commodities at any time. Loans in excess of $200,000 would be recourse; that is, they must be repaid with interest. Direct payments will be limited to $20,000 per person in 1986, $15,000 per person in 1987, and $10,000 per person in 1988 and succeeding years. This limit applies to all commodities covered by the legislation and will direct Government assistance to family-sized farms.

Agricultural trade and export expansion programs

A major component of the AAA of 1985 is the establishment of a formal and explicit agricultural trade policy which is consistent with our domestic agricultural policy. The major provisions of this policy are:

A commitment is made on the part of the U.S. Government to promote open access in world markets for U.S. agricultural exports.

We will seek expanded trade by negotiating with our key trading partners to implement programs which reduce restrictive trade practices. The U.S. Trade Representative is to report to Congress on the extent and impact of trade barriers on agricultural exports. In the event that negotiations to remove or reduce barriers, including export subsidies, are not progressing satisfactorily, the Secretary of Agriculture and the U.S. Trade Representative are to submit a report by July 1, 1986, recommending what actions will be taken to offset the effects of such barriers.

Export expansion programs are continued, with the GSM–102 Export Credit Guarantee program set at a level consistent with the credit needs of countries which are importing U.S. agricultural products and meet credit requirements. The P.L. 480 foreign aid programs are reauthorized.

Other provisions of AAA of 1985

Agricultural credit: Provides that from fiscal year 1986 onward all FmHA farm loans will be in the form of guaranteed loans. The only exception is that through fiscal year 1990 loans for annual farm operating purposes can still be made to borrowers who have outstanding annual farm operating loans made under subtitle B of the Consolidated Farm and Rural Development Act. Finally, the FmHA emergency lending program is eliminated, except that in those counties where multi-peril all-risk crop insurance is not offered, guaranteed loans could still be made.

Resource conservation: This title contains strong "sodbuster" provisions. Under these provisions, any operator who begins tilling erodible soils that had not been in production for the past 10 years would be ineligible to obtain any federal farm program benefits.

Agricultural research, extension and teaching: A major change proposed is a greater emphasis in research and extension on increasing the efficiency and profitability of the farm enterprise rather than focusing simply on output. We do not propose to accomplish this change through new programs or specific amendments to existing agricultural research extension or teaching programs but rather through shifting the emphasis in current programs in response to proposed new congressional findings.

I know that there are some who will not agree with all of the Administration's proposals—some who think that they have a better answer. But to be very candid, there are really only three options available to the Congress: an extension of current programs; mandatory controls; or a flexible market-oriented approach, such as the AAA of 1985. Let's look at how each of these alternatives meets the objectives we have set forth. And most important, let's be honest with farmers, agribusiness and consumers about the short and long-run impacts of each of these options. Mr. Chairman, we can't afford to keep mortgaging agriculture's future for a temporary quick fix. It is time to face the realities, set the proper course and make the transition as smoothly as possible.

EXTENSION OF CURRENT PROGRAMS

Current programs are the result of 50 years of short-term fixes without regard to equity or consistency. This has led to having quotas and allotments for some crops, such as peanuts; target prices and acreage reduction programs for wheat, feedgrains, cotton and rice; direct purchases for dairy; and payments for wool and mohair. It would be hard to design a more complex, inconsistent and costly set of programs if one set out deliberately to do so.

During the past year, as we held listening sessions around the country, one thing came through crystal-clear about the current set of programs and policies: people do not believe they are working. Why is this so? One problem is high support rates, which set rigid price floors and prevent farmers from responding to market price signals. The result is excessive production and stock accumulation, and lost domestic and world markets. Excessive production, large and excessive stocks, and declining prices for grains and cotton were the reasons that PIK had to be implemented in 1983, and the reasons that a dairy diversion program was implemented last year. For most of our export crops, we have witnessed a decline or stagnation in the U.S. share of world trade while competing exporters have rapidly expanded. For example, the U.S. share of world wheat trade fell from 44 to 35 percent from 1981 to 1983 while our major competitors increased their share from 52 to 60 percent. And in the last three years the volume of U.S. rice exports declined by a third, while our major competitor, Thailand, increased its exports by over a third. Furthermore, if grain companies can demonstrate the feasibility of the profitable importation of wheat and corn from South America, we must face the implied realities.

Target prices under current programs stimulate larger production by interfering with farmers' adjustments to the market. But they also pose the threat of tremendous budget exposure, forcing the implementation of large acreage reduction programs in the effort to raise prices and reduce the potential exposure. Of course, as we reduce production and artificially raise prices, we lose markets, which are quickly taken over by competing exporters.

The acreage reduction programs do not effectively reduce production over the long term, and may even encourage more production over time as farmers try to expand acreage bases in order to receive benefits from future government programs. In order to be effective in the short-run, acreage reduction programs must attract as many participants as possible. But larger producers are subject to a payment limitation that makes participation unattractive. And participating producers do their best to increase yields on acres remaining in cultivation.

Even to the casual observer of the problems associated with the current programs, it should be clear that they are not working. Consider that since 1981 these programs have been modified legislatively more than twice a year, on average.

Furthermore, the costs of our farms programs are growing rapidly. If extended, they are expected to cost more than $15 billion annually over the FY 1987-91 period. This is nearly double the annual average outlays for FY 1980-84, and nearly five times the average during the 1970's.

The pressure from ineffective acreage programs, rapidly building inventories, declining farm prices in real terms, and loss of world markets would force changes in current legislation after only a few years. Excessive budget outlays that would not improve the farmers' long-term financial condition would likely give way to mandatory production controls. By then, the U.S. would have also given away any established growth in export markets.

For these reasons, I do not believe that an extension of the current programs is a feasible alternative.

MANDATORY CONTROLS VS. AAA

Once an extension of current programs is discarded, then there are only two alternatives: mandatory controls or a market-oriented program.

It is true that mandatory controls might achieve higher prices for commodities in the short term, a goal that is sought by many farmers, and a goal that would help minimize farm program expenditures. In fact, we expect that prices under a system of mandatory controls would average 20 percent higher for corn and 45 percent higher for wheat over the period 1986–90 than would prices under the AAA, if both options were to achieve the same budget outlay levels. These artificially enhanced prices would have significant negative impacts on the livestock and poultry industries and on export sales.

But what level of control is necessary to achieve these prices and hold budget outlays to the AAA levels? We estimate that wheat acreage would have to be reduced by 38% from about 80 million acres to 50 million acres annually; corn acreage by 21% from about 82 million acres to 65 million acres; cotton acreage by 38% from 13 million acres to 8 million acres; and rice acreage by 52% from 2.5 million acres to 1.2 million acres compared to the acreage projected under the AAA. Each year these controls would have to be tightened further as new production technology is adopted, thereby increasing the yields from each acre remaining in production. These acreage adjustment programs would need to be supplemented with farm marketing quotas to further limit budget exposure. This would deprive the consumer of the benefits of the cost reducing technology.

The gross revenue that a farmer receives is price multiplied by the volume he produces. As anyone can tell you, in a drought year, $4.00 corn doesn't mean much if you only have one quarter of your crop to sell. With mandatory controls, the reduced production that is required would more than offset the effects of higher prices after the first year, leaving farmers with a lower gross income than they would have under the AAA. For example, by 1991, gross returns from a 500-acre Kansas wheat farm would be about $17,000 less under the mandatory program than for AAA.

And that's not the end of the story. Not only would gross income be lower, costs would be higher with mandatory controls. Why is this so? Under the AAA, land prices and rents should reflect the value of the land in production, and farmers can adjust operations to make maximum effective use of their capital equipment. But with mandatory controls, land prices and rents would quickly rise to reflect the value of the production "rights" associated with that land. The real winners here are landowners who are not necessarily producers. And with enforced limitations on production, the costs of capital equipment would have to be spread over fewer units of production, raising costs further. The result is lower gross income, higher costs and lower net income.

If the United States chooses mandatory controls, then we will have made the choice to abandon export markets, which absorbs around one-third of crop output and one-fourth of total agricultural output, to produce primarily for domestic consumption. The potential for growth in the domestic market is limited. Our withdrawal from export markets will provide the initiative for other countries to increase production. Thus, the government risks becoming the market at enormous cost to the taxpayer. Specifically, by 1990, U.S. exports of wheat would be over 900 million bushels less per year under mandatory controls than with AAA, a reduction of about 45 percent. For rice, the reduction would be even more significant: 60 percent, a decrease from 80 million hundredweight to about 30 million hundredweight per year. Corn exports would decrease from an estimated 2.8 billion bushels per year to 1.8 billion bushels per year by 1990 and, as a final example, cotton exports would be only about 6 million bales in 1990 under mandatory controls as compared to almost 7 million bales under the AAA. Not only would exports be reduced by the higher prices under mandatory controls, but by the extremely unfavorable trade atmosphere that would be created by the need to raise new trade barriers to prevent importation of cheaper foreign supplies into domestic markets. The contrast to the AAA, with competitive prices and a commitment to reducing trade barriers, could not be clearer. Under mandatory controls our export markets would decline and our market share would drop sharply. Under the AAA, we would gain a larger share of a growing world market. By 1990 the U.S. would increase its market share for wheat from the current 36 percent to 45 percent. The U.S. share of the coarse grain market would rise from 60 percent to nearly 70 percent.

Finally, I have reminded many different audiences this past year that, agriculture, broadly defined to include all components of the food and fiber system accounts for about 20 percent of our gross national product, and employs about 20 percent of the workforce. Our exports of agricultural products have contributed $20 billion to a trade surplus which offsets a part of the U.S. trade deficit. It has been estimated that every $1 billion in agricultural trade creates an additional $1 billion in U.S. economic activity—and 35,000 jobs.

Thus we could conclude that if we choose mandatory controls, we will reduce general economic activity in the broadly defined agricultural related sectors by $5–10 billion and employment by 200,000–250,000 jobs compared to the AAA through its effects on the export sector alone. This would include significant reductions in economic activity and employment in the input industries such as fertilizers, chemicals, and equipment, as well as processing and transportation under mandatory controls. We would be choosing to idle over 40 percent of our current cropland capacity compared to AAA. I do not believe that this is a wise choice for farmers and agribusiness, nor for the rest of the U.S. economy.

Let me conclude by reminding you that the path we follow in 1985 is likely to set the course for agricultural policy well into the next century. When President Roosevelt proposed the AAA to Congress in 1933, he said:

"I tell you frankly that it is a new and untried path, but . . . an unprecedented condition calls for the trial of new means to rescue agriculture."

Only a year later, in 1934, Secretary of Agriculture Henry Wallace said:

"The present program for readjusting productive acreage to market requirements is admittedly but a temporary method of dealing with an emergency. It could not be relied upon as a permanent means of keeping farm production in line with market requirements."

If we fail to remember the lessons of the past, we are doomed to repeat its failures. We all share a common desire to preserve and promote this nation's most important and productive industry. Winston Churchill once said, "you can always count on the Americans to do the right thing after they've tried everything else." The Administration believes that the Agriculture Adjustment Act of 1985 sets agriculture on a course which will ensure a longer term prosperity not only for agriculture but for the entire U.S. economy. The AAA of 1933 may have been appropriate for that time but it is not appropriate for today or the future.

Thank you, Mr. Chairman. I would be happy to answer any questions you or other members of the Committee may have.

1985 FARM BILL

[Target, Loan and Season Average Prices]

Item	1984	1985	1986	1987	1988	1989	1990	1991
Wheat (price per bushel):								
Target	$4.38	$4.38	$3.41	$2.94	$2.53	$2.25	$2.23	$2.26
Loan	3.30	3.30	2.56	2.32	2.11	1.99	2.09	2.26
Farm price	3.40	3.30	2.50–2.95	2.50–2.95	2.55–3.00	2.70–3.15	2.90–3.35	3.15–3.60
Corn (price per bushel):								
Target	3.03	3.03	2.83	2.37	2.11	1.95	1.96	1.99
Loan	2.55	2.55	2.12	1.87	1.76	1.72	1.84	1.99
Farm price	2.70	2.60	2.15–2.60	2.20–2.65	2.30–2.75	2.40–2.85	2.50–2.95	2.65–3.10
Sorghum (price per bushel):								
Target	2.88	2.88	2.52	2.15	1.94	1.79	1.80	1.82
Loan	2.42	2.42	1.89	1.70	1.61	1.58	1.69	1.82
Farm price	2.42	2.40	1.95–2.35	2.00–2.40	2.10–2.50	2.20–2.60	2.30–2.70	2.45–2.85
Barley (price per bushel):								
Target	2.60	2.60	2.35	2.03	1.78	1.63	1.63	1.64
Loan	2.08	2.08	1.76	1.60	1.49	1.44	1.52	1.64
Farm price	2.35	2.20	1.75–2.10	1.80–2.15	1.90–2.25	2.00–2.40	2.10–2.50	2.25–2.65
Oats (price per bushel):								
Target	1.60	1.60	—	—	—	—	—	—
Loan	1.31	1.31	—	—	—	—	—	—
Farm price	1.70	1.55	1.15–1.45	1.20–1.50	1.25–1.55	1.30–1.60	1.40–1.70	1.50–1.80
Cotton: [1]								
Rice (price per hundred weight):								
Target	11.90	11.90	8.50	7.03	5.85	4.87	4.72	4.57
Loan	8.00	8.00	6.37	5.55	4.87	4.30	4.42	4.57
Farm price	8.40	8.30	5.25–6.00	5.50–6.25	5.60–6.40	5.70–6.50	5.80–6.70	6.00–7.00
Soybeans (price per bushel):								
Target	—	—	—	—	—	—	—	—
Loan	5.02	5.02	5.10	4.51	4.31	4.25	4.40	4.60
Farm price	6.50	6.15	5.25–6.00	5.50–6.25	5.60–6.40	5.70–6.50	5.80–6.70	6.00–7.00
Milk (price per hundred weight):								
Target (all)	—	—	—	11.18	9.75	8.63	7.68	7.75
Support (manufacturer)	12.60/12.10	11.60/11.10	11.10/11.60	—	—	—	—	—
Farm price (all)	13.15	12.30–12.60	11.55–11.95	9.75–10.50	10.00–10.75	10.00–11.00	10.25–11.50	10.75–12.00

Peanuts (center per pound):								
Target [2]	—	—	27.50	22.61	21.11	19.97	19.47	19.00
Non quota loan	9.20	9.20	12.50	12.50	12.50	12.50	12.50	12.50
Quota loan	27.50	28.00	—	—	—	—	—	—
Farm price	24.50	23.90	22.00–25.00	23.00–26.00	23.00–26.00	24.00–27.00	25.00–28.00	26.00–30.00
Sugar (cents per pound):								
Target	0	0	18.00	16.00	14.12	12.75	12.41	14.29
Loan	17.75	18.00	12.00	12.00	12.00	12.00	12.00	12.00
Farm price	21.57	21.97	17.00–20.00	15.00–18.00	15.00–18.00	15.00–18.00	20.00–24.00	22.00–27.00
Wool (cents per pound):								
Target	165.0	173.0	72.1	72.2	67.5	65.5	64.3	62.2
Loan	—	—	—	—	—	—	—	—
Farm price	80.0	75.0	70.0–80.0	75.0–85.0	75.0–85.0	80.0–90.0	80.0–90.0	85.0–95.0
Mohair (price per pound):								
Target	5.17	4.65	4.47	4.43	4.23	4.11	3.99	3.83
Loan	—	—	—	—	—	—	—	—
Farm price	4.75	4.60	4.50–5.00	4.75–5.25	4.75–5.25	5.00–5.50	5.00–5.50	5.25–5.75

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[1] USDA is prohibited from publishing cotton price projections.

[2] Applies to quota production only.

MARCH 21 HEARING—LIVESTOCK AND POULTRY ISSUES

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, I want to welcome today's representatives of the livestock and poultry industries. I am certain that the testimony we hear today will help us in our deliberations on the farm bill. While the committee may not be recommending any legislative changes directed toward the cattle, hog, or poultry industry, Congress nevertheless affects these industries when it makes changes in the wheat and feed grain programs. For this reason, I believe the comments made today will be most useful in our farm bill discussions.

Accomplishments that I would like to see attained for the livestock and poultry industries include:

(1) Opening up foreign markets, such as Japan, for our meat and poultry products;

(2) Countering the subsidies of foreign nations that have taken away markets for U.S. poultry products in the Middle East and prevented meat products from gaining any share of other markets;

(3) Countering the flood of imports that displace domestic sales of meat and poultry; and

(4) Lowering interest rates.

Producers of meat and poultry have an important interest in the development of the 1985 farm bill. In Nebraska, many farms are diversified operations producing both commodities and livestock. For operators of feedlots and other farm enterprises purchasing grain products as feed, the legislation is important because they need a steady supply of grain at predictable prices.

I know of no responsible group that advocates legislation that would result in our farmers' receiving cheap prices for their grain. Cheap prices for grain eventually would translate in disastrously low prices for beef, pork, and poultry. No one wants that to happen.

Mr. Chairman, one pressing problem today is the large and growing volume of hogs and pork products entering the United States from Canada. These imports continue to create additional hardship for financially-troubled pork producers in Nebraska and other states.

Nebraska producers have pointed out that there is a 30-day quarantine period on live hogs entering into Canada. This quarantine effectively eliminates United States export sales opportunities in Canada. Hogs and feeder pigs entering the United States from Canada have no such restrictions.

In addition, the Canadian Government operates an income stabilization program that results in a payment to pork producers above market returns. U.S. pork producers, who do not benefit from any similar assistance program, view the Canadian program as a subsidy that promotes pork production and results in shipments of excess production to the United States.

I believe the President should negotiate with the Canadian Government on easing the adverse effects on U.S. pork producers caused by the recent surge in Canadian imports, and to use all available authorities to protect the economic viability of the U.S. pork production industry.

I look forward to the testimony of today's witnesses.

STATEMENT OF HON. MITCH MCCONNELL, A U.S. SENATOR FROM KENTUCKY

I am pleased that we are including livestock and poultry issues in our discussions of the 1985 Farm Bill. Even though these segments of the agriculture industry do not receive direct federal benefits, the decisions we make on commodity issues, conservation issues and credit issues will have a real impact on livestock and poultry farmers.

There is a lot to be said for the way livestock and poultry people do business. These groups are, arguably, currently the most profitable in the agricultural industry. We could do well to listen closely to the testimony offered today to see just why that is so.

Thank you Mr. Chairman.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Mr. Chairman, it is important for the committee to hear the views of livestock and poultry producers on the kind of farm programs that can restore profitability to their industries.

During the long hours of discussion that led to the Dairy Adjustment Act of 1983, those of us involved in fashioning the bill made every effort to see that livestock producers were not disadvantaged by the bill. In particular, we took great precautions to see that the rate of cow culling under the Dairy Diversion Program would not lead to precipitous declines in beef prices. Our new colleague on the committee, Senator Harkin, was a leader in this effort while a Member of the House of Representatives.

I am hopeful that the livestock and poultry industries will again be willing to work with those of us vitally interested in enacting a workable dairy program for fiscal year 1986 and future years. The committee will need the advise of many experts to establish a responsible farm bill.

By all estimates, large numbers of farms may go bankrupt this year—perhaps as many as 7 to 13 percent of all farms. Not all of these farms are grain or cotton farms—some of these farms are also involved in livestock or poultry or dairy production. We must work to enact legislation that prevents the spread of the current crisis in agriculture to farms and areas of the country that have not yet experienced the crisis.

I welcome the opportunity to have the benefit of today's testimony.

STATEMENT OF JO ANN SMITH, PRESIDENT, NATIONAL CATTLEMEN'S ASSOCIATION

INTRODUCTION

Mr. Chairman, I want to thank you for this opportunity to appear before the Committee on behalf of the National Cattlemen's Association. I am Jo Ann Smith, and I currently serve as the President of the National Cattlemen's Association. The members of the NCA have a strong interest in the Farm Bill that you will be considering over the next few months, an interest that has really only been awakened over the past few years.

Prior to 1982, cattlemen were content to stay at arms-length with this whole process, preferring instead to allow the general farm organizations and the "program commodity" organizations to develop "their" Farm Bill. However, the payment-in-kind program and the dairy diversion program demonstrated to us that we cannot afford to stand by. Our industry is dramatically affected by the provisions of your Farm Bill.

IMPORTANCE OF LIVESTOCK TO THE AGRICULTURAL ECONOMY

Mr. Chairman, I want to thank you for recognizing the importance of the livestock sector in scheduling this hearing for livestock and poultry input to the Committee. We are the largest single commodity in agriculture in terms of gross farm income; cattle account for about 20 percent of all income for agriculture. Further, beef cattle, dairy, pork, poultry, sheep and other livestock account for about half of all agricultural sales.

Livestock, poultry and dairy producers are the biggest customers for feedgrains produced in the United States. We buy and feed over half of U.S. feedgrain production, and in most years we purchase twice as much corn, sorghum, barley and oats as is exported. As the largest customers for U.S. feedgrain producers, we expect that our input into the development of the feedgrain programs will be given due consideration.

We have also found, over the past two years, that we can feed wheat to a greater extent than we expected. But we can only do so when market price differentials are right, as occurred when the drought reduced feedgrain supplies, and feedgrain prices increased relative to wheat prices. We are willing to utilize wheat again, but wheat prices must not be artificially kept out of line with feedgrain prices.

NCA ROLE IN DEVELOPMENT OF THE 1985 FARM BILL

Because we are relatively new to the Farm Bill process, some have questioned our legitimacy in being involved. Let me say now that we do not intend to write a wheat or dairy or corn program of our own. We will leave that to the respective commodity groups and to the general farm organizations—and it looks like you will get a program from each of these groups.

Our only objective is to assure that any program that is developed recognizes the importance of the cattle industry to the general agricultural economy and does not adversely affect us. We do have some general philosophical preferences which I will share with you later, but basically, we just want to deter programs which create problems for us.

CONGRESS MUST DECIDE ON OBJECTIVES OF THE FARM BILL

Now let me turn to some of our more specific concerns. Foremost of these concerns is the question of farm policy objectives. American agriculture has been operating for over fifty years under a set of programs that had the same basic idea, but agriculture has changed dramatically over that same period of time. While the basic objectives have remained in place, we have also seen a number of subobjectives tacked onto the farm programs, and the Farm Bill has been used as a vehicle to achieve various social or political or economic goals.

It is incumbent upon the Congress to define the goals of the 1985 Farm Bill before a new farm bill is enacted:

Is the purpose of a Farm Bill to assure income stability for agricultural producers through income transfers like the deficiency payments? If it is, then why are more than one million beef cattle producers in this country not included in this program?

Is the purpose of the Farm Bill to assure commodity price stability? If it is, then why do the stabilization programs only cover a few commodities, and why are three of the largest segments (beef, pork and poultry) not included? In fact, some of the stabilization programs for the "program commodities" may actually de-stabilize our prices!

Is the purpose of the Farm Bill to provide an abundant supply of food to U.S. consumers at cheap prices? If so, how much will the government spend in supporting agriculture to assure that supply of food?

Is the purpose of the Farm Bill to utilize agricultural products as strategic bargaining chips? If so, will the government also assume responsibility for easing the cost of such strategic actions to agricultural producers?

Congress must determine the goals, taking into account the views of all groups with a stake in the food and agricultural sector. Only Congress can rise above the individual interests of the commodity groups, general farm organizations and other groups, to develop and implement a policy of change for American agriculture. We hope that the members of the Senate and House are prepared to live up to this tremendous responsibility, and will sieze this opportunity to set a new course for agriculture.

S. 616 IS A GOOD START

Mr. Chairman, you have outlined one set of goals in introducing your own Farm Bill. In your statement introducing S. 616, you draw a vivid distinction between "public utility" agriculture and a market-oriented agriculture. We agree with your assessment that a "public utility" agricultural policy cannot possibly work—we are not in a closed economy, and we must recognize agriculture as a part of a much larger international economy. A "public utility" policy for agriculture would stifle and even kill the entrepreneurial spirit that has made American agriculture the most productive in the world.

We further agree with you that change must begin now. There will be no "right" time to start moving toward a market-oriented agriculture, and the longer we delay the move, the more we prolong the problems we currently face. The precarious financial condition of many agricultural producers should influence how rapidly we make the transition, but should not deter us from moving in the direction we must go—toward allowing the market to determine not only prices, but production decisions.

NCA OBJECTIVES FOR A FARM BILL

At our recent convention in Phoenix, Arizona, the NCA membership adopted a resolution on agricultural policy that is as strongly supportive of a market oriented agriculture as any farm or commodity organization. Let me share the objectives of that statement with you:

" * * * NCA's priorities are to:

(1) Achieve a reduction in Federal spending and the deficit,

(2) Minimize direct federal involvement in agriculture and begin a phase-out of commodity programs,

(3) Preserve the right of individual choice in the management of land, water and other resources, and,

(4) Provide an opportunity to compete in foreign markets.

Relative to our first priority, our members say "The government could do more for agriculture by reducing federal spending than through any commodity or farm program". In order for agriculture to get back on track, the federal government must get its house in order; we do not need the government to compound our problems by continued deficit spending.

Our members believe, with good reason, that "Government farm programs influence, change and distort the price and supply of beef cattle". We want those adverse effects eliminated, and the most efficient way to do so is to phase out the programs and allow the market to determine the price and supply of agricultural commodities. We feel more confident in our ability to anticipate market conditions than to second-guess what might come from the pen of a bureaucrat or the collective pen of Congress.

A very deeply held principle for cattle producers is that the right of choice in the use of resources must be *pre-eminent.* The market will exercise sufficient control over the use of these resources. The last thing we need are government programs that encourage an inappropriate use of private resources.

Finally, we must continue to develop an export market for all agricultural products, including such value-added products as beef. The trade policy of the United States must be integrated with domestic policy, and must also be strong enough to overcome the challenges of barriers to exports of our products.

UNACCEPTABLE ALTERNATIVES

We are aware of some program alternatives that may be offered which we know we cannot support. Three in particular seem to be getting a lot of attention at present:

(1) *Two-tiered pricing systems:* This proposal essentially offers grain producers two prices for their crops. Up to some level of production, producers would receive a (higher) domestic price. The balance of their production would be sold into the "world" market at prevailing (but presumably lower) world market prices.

At first glance, this program wounds reasonable. In fact, we could even support it with one slight change—we must have the opportunity to purchase our grain for feed in either the world or the domestic market, wherever the price is lower! Obviously, this would defeat the intent of the program, but the point is that the domestic livestock sector is still the largest customer for feedgrains. We cannot understand why the grain sector would insist on treating its largest customer this way.

(2) *"Marketing loan" arrangements:* Some have advocated doing away with target prices, and instead setting loan rates at higher levels but allowing producers to repay loans at prevailing market prices without penalty. For example, set the corn loan rate at $3.50 per bushel; if corn prices are at $2.50, the corn producer would sell corn and repay the loan at that rate, keeping the $1.00 difference in price.

The problem with this idea is two-fold: First, if the program is to work, there must be payment limitations (to avoid huge program costs) or a supply management program must be implemented (or both). Under a payment limitation, however, the large producers who account for the greatest share of the crop would not participate and prices would likely fall (increasing program costs). Under a supply management program, however, the livestock sector is the loser, since production and feedgrain supply would respond to the government programs and not to market demand and prices.

Second, this program is the same old wolf in a slightly different sheepskin—the marketing loan really is the present target price/deficiency payment program. While there will be no loan to set a bottom on price, the payment limitations and/or supply controls implemented to control budget costs will serve the same purpose. This is just the kind of program that got us into the mess we are in now, and we do not need more of the same.

Third, *Dairy diversion Programs:* We opposed this subsidy to slaughter when it first passed Congress and we continue to oppose it in any form. The diversion program is one of the most blatant examples of how a program for one commodity can adversely affect other commodities. Paying dairy farmers to reduce production effectively amounts to a subsidy to slaughter dairy cows, in competition with beef, and other meat and poultry producers.

A particular concern is the idea of a standard diversion program, allowing the Secretary to institute a limited term dairy diversion under certain circumstances. This "on-again, off-again" approach is absolutely unacceptable. We have enough trouble planning for our business as it is, without compounding the problem with the uncertainty and threat of an optional or stand-by diversion.

SPECIFIC RESPONSE TO THE ADMINISTRATION FARM BILL PROPOSAL AND TO S. 616

Mr. Chairman, we applaud you for introducing S. 616. It appears, at first analysis, to address many of our concerns. You provide for a loan rate and target price mechanism that reflect market conditions; the export section more meat than the Administration has offered; the credit measures move us toward a positive borrower-lender-government interaction, and the transition period is reasonable and maintains a safety net while American farmers respond to the change.

We have asked the Secretary of Agriculture for an "economic impact analysis" of the effect the Administration Farm Bill will have on agriculture and specifically on the cattle industry. We intend to ask for the same kind of analysis of your bill from the USDA.

Finally, our Agricultural Policy Committee is reviewing the proposals that are on the table thus far. We intend to have a written statement of our position on S. 616 to you by April 10, for your review. As I noted, we see many very positive features in your bill, but we must proceed carefully with an in-depth analysis before committing ourselves.

CONCLUSION

Mr. Chairman, we urge you and the members of this Committee to proceed carefully, but as expeditiously as possible to achieve a new direction for American agriculture. The time for beginning this change for agriculture is now, and we applaud the leadership that you have shown in heading us in that direction. Thank you for this opportunity to present our views.

STATEMENT OF JAMES WRIGHT JACKSON, NATIONAL PORK PRODUCERS COUNCIL

Mr. Chairman and Members of the Committee: We appreciate this opportunity to share with the Committee our positions on issues for the 1985 Farm Bill.

The National Pork Producers Council (NPPC) is the largest commodity organization in the nation with an identified membership, representing 315,000 farm families.

One of the major external factors affecting pork production profitability is the policies of the federal government as it impacts upon a producer's cost of doing business and a producer's ability to effectively market products. It is only natural then that one of the key objectives for 1985, given high priority and articulated by NPPC's Government Relations Policy Development Group is to "develop guidelines and actively participate in farm policy debate."

We want to focus this Committee's attention upon the economic hardships being currently suffered by the family farm system and upon the importance of maintaining that system for a strong and vibrant democracy.

Our policy recommendations focus on the needs of the 315,000 producers who continue to maintain hog operations in the face of increased interest rates, unfair subsidized foreign competition, governmental advise on consumer eating habits, and regulation of food safety that is often harmful to product marketing.

We want our producers, who are increasingly involved in a technologically-advanced and capitol intensive process, to obtain adequate return for their substantial investment of time, energy, and dollars. That is the only way, there will continue to be enough pork producers who can assure America what it expects of its farmers: an abundant and safe supply of reasonably priced food.

The Senate will be deliberating and deciding the specifics of food and agriculture policy for the country. This will occur in the process of enacting a new Farm Bill, which has traditionally been the centerpiece of such policy.

The NPPC has a direct economic stake in such policy development. We have always believed and continue to believe that, despite 50 years of farm bills that have injected the federal government into the farm marketplace as its chief regulator, farmers, and especially pork producers, are likely to be more cost-effective, more productive, more competitive and ultimately, more profitable when they are left alone without artificial price floors or artificial production controls affecting their input and inhibiting their activities.

Unfortunately, in recent years, we have witnessed numerous efforts by other farm organizations, often successful, to devise and take advantage of governmental programs structured in such a way that they favor some segments of agriculture at the expense of the economic interests of pork producers.

NPPC does not enter the food and agriculture policy arena with the intent of promoting new or revised commodity programs that would place the government directly on the side of enhancing the income of pork producers. We have not done this for fifty years. We do not propose to begin to do so today.

Many individual hog farmers may wish to participate in advocating specific commodity programs in connection with their production of other crops, such as corn or soybeans (or, occasionally, tobacco, peanuts, or cotton) that may account for a significant portion of their gross farm income. But the NPPC, despite the fact that many of our members produce more than one commodity (usually commodities that are heavily influenced by targeted programs), is not an advocate for increased government intervention or regulation. We are more concerned about minimizing the adverse impact of the government on our industry and about fostering the unfettered, interplay of supply and demand as the factors that determine profit and loss.

What we seek is fair play and equal treatment. We do not want the government to unreasonably raise our costs of doing business, whether it be in the form of interest rates at a level exaggerated by virtue of the government's fiscal policies, or in the form of charges for feed or energy that are unnecessarily inflated by federal limitations upon production or taxation. We do not want the government to welcome competitive pork production from foreign countries whose exports to us are subsidized by foreign governments without adequately enforcing the fair trade laws now in effect or to place us at a competitive disadvantage by encouraging the unnatural and excessive marketing of domestic red meat that will depress the prices we might otherwise secure.

NPPC does not want the government to favor producers of any one commodity if the result will harm producers of other commodities. The federal government, above all, should do no harm to any sector of productive agriculture, or, if that is not feasible, should minimize the negative impact of its programs on any one sector.

The government that governs best on behalf of pork producers and their profitability is one that governs least—and, above all, spends less. Our current monetary-fiscal policy characterized by immense deficits and attendant high interest rates, directly hurts pork producers. We pay more than we should in interest rates to finance our land, facilities, and operations. That aggravates our cash flow problems, pressures many producers to liquidate part of their herds, and reduces our prospects for obtaining revenues in excess of our expenses. The same high interest rates help boost the value of the dollar and undermine our competitive ability to export wheat, corn, and soybeans, resulting in disappointing commodity prices and creating a climate favorable to limitations upon productions. The dollar's value also functions to attract producers from foreign countries to invade our domestic markets. We endorse efforts to reduce those deficits substantially by reducing government spending.

While NPPC supports the most free market possible, we recognize it is unrealistics to assume existing commodity programs will vanish overnight. NPPC proposes these programs be phased out over a reasonable period of time. We realize groups that favor modifying rather than eliminating the existing mix of loans, target prices, and acreage diversion programs have exhibited considerable clout. They wish to maintain these programs essentially intact, while modifying certain details. While we are skeptical about the beneficial impact of the prevailing policies on producers, we want to support those transition changes that will gradually move present programs in the direction closest to the competitive marketplace.

Agriculture must have sufficient time to adjust and adapt to the new competitive world economy in which it finds itself. Thus, timing becomes the most critical factor for our fellow producers, many of whom have become financially dependent on some of the present federal programs.

There is another vital element that must be addressed simultaneously. Our government must also face up to the reality of the world marketplace, and begin insisting that its trading partners recognize that free trade is not just a one-way proposition with red, white and blue markings on it.

It is with the premise that the federal government will become more aggressive in equalizing trade policies with other nations, that NPPC makes its farm policy recommendations.

Loan Rates—NPPC supports the setting of loan rates at levels that will operate (1) to stabilize commodity prices and either avert entirely or dampen the cyclical price swings that deter investment and undermine producer confidence and (2) allow prices for commodities to be set by the workings of supply and demand rather than with reference to the loan rates, thereby avoiding the establishment of artificially high prices, the attendant loss of export markets to foreign competitors, and the stimulation of excessive production, and (3) are both flexible and enduring over the long-run, rather than merely an ad hoc reaction to temporary conditions that must be revamped every year. To this end, we would endorse decreasing the current level of loan subsidization and replacing it with a program of loan rates that fluctuate and are adjusted in accordance with but fall distinctly below the average of recent years' markets, without any artificial floor that might cause the loan rate to approach or exceed the market price.

NPPC opposes any effort to create a two-tiered system that would allow commodities intended for export to be priced at market-clearing levels, while providing support for commodities for domestic consumption at a different and higher level. That is precisely the kind of program that would enhance the interest of some producer groups at the expense not only of other producers, but also of American consumers.

Target Prices—We would hope that eventually there would no longer be any need to retain programs to prop up producer income. If, however, that need continues to receive sufficient political support, the price supports established should float up or down with the loan rates rather than, as in the recent past, being fixed (on the basis of poor price forecasting) at some artificial figure unrelated to market prices. Deficiency payments made in connection with diversion or set-aside programs should not reward double-cropping the same acres (including using set-aside acreage to graze livestock).

Production Contols—NPPC does not encourage the imposition of any promotion controls that would significantly increase governmental outlays for agricultural programs. In particular, there should be no new programs exchanging payments for non-production of commodities that might result in increasing the supply of commodities that compete with pork.

Reserve—We support the termination of the existing farmer-owned grain reserves for corn on a gradual phased basis, designed to time its release into the market in such a way as to limit adverse price impact.

NPPC supports the concept of a farmer-owned reserve for wheat that would operate to provide for emergency overseas food needs rather than to bolster market prices.

We oppose the creation of any government-owned commodity reserves.

Dairy—The dairy industry is an important agriculture sector in every state. Milk is produced on 300,000 farms, about two-thirds of those commercial dairy farms. Dairy products worth $18.8 billion were sold in FY 1983, 14 percent of cash farm sales.

Federal dairy policy establishes milk price support levels which are achieved through purchases of cheese, butter, and nonfat dry milk; through a nation-wide system of market orders; and, through quotas on imported cheese. It is one of the most complex in the agricultural sector. But, the industry continues to face pressure for economic adjustment. The domestic market grows only slowly while productivity advances rapidly. Since 1970, milk output per cow has increased 30 percent in contrast to only a 13 percent growth in commercial use. Legislatively established price support levels have led to a very large Commodity Credit Corporation (CCC) purchases of butter, cheese, and nonfat milk and high government costs.

For many years, the milk price support level was tied directly to parity. The 1977 Farm Act raised the minimum support level from 75 to 80 percent of parity, and it was held at that level until 1981. The 1981 Act reduced the minimum support to 75 percent of parity and gave the Agriculture Secretary flexibility for lower support when production was in surplus, but included a schedule of annual minimums.

However, surpluses and program costs have remained high. As a result, dairy provisions of the 1981 Act have been superseded twice. The FY 1982 Budget Act allowed the Secretary to forego the price support increases required in the 1981 Act and permitted a deduction of up to $1 per hundredweight (cwt) on all commercial sales. In November 1983, a 15 month voluntary program paid producers to cut production, reduced price supports for all producers by $1 per cwt, and continued a $0.50 per cwt. deduction on commercial sales.

The program in combination with lower price supports and sharply higher feed costs in 1984 (a result of Payment-in-Kind (PIK) and drought in 1983) has led to heavy culling, fewer cows, less milk per cow, and declining surpluses. At the same time, commercial use has been rising more rapidly than it has for several years, and net CCC purchases have been lower.

While CCC purchases have frequently been large, exceeding four billion pounds per year in 19 of the 34 years the program has been in operation, the extent of intervention in the dairy market in recent years is unprecedented. In 1953/54, CCC bought 11.3 billion pounds (at a cost of $500 million), the greatest amount until 1981. Since then, purchases have averaged 12.3 billion pounds and the government inventory has grown. The CCC, since 1950 has spent a total of $17.5 billion on dairy supports and donations. Costs over the last five years have accounted for 48 percent of the 34 year total.

The federal dairy program affects American consumers and livestock producers in several ways. Dairy price supports have held prices above market clearing levels and have reduced consumption. The import quotas and restrictions on international trade have emphasized this impact. The market order regulations have stabilized the regional price structure for fluid milk and limited regional product flows, as well as restricted the use of some products. While precise estimates are impossible, conservative estimates place the total annual cost to the American consumer of the milk program at $2 billion.

NPPC believes that the free market can achieve economies of production better than federal programs. We do not want to be placed at a competitive disadvantage by dairy producers whose very real problems depress the prices pork producers might otherwise receive for their product.

Pork producers encourage self-help programs which lead to systematic reductions of dairy herds, provided that pork producers are not placed at a competitive disadvantage by encouraging the unnatural and excessive marketing of domestic red meat. Depressing red meat prices below what pork producers might otherwise obtain or requiring taxpayers to subsidize dairy programs should not be the legislated policy of our federal government.

The Dairy and Tobacco Adjustment Act of 1983 should be preserved through September 30, 1985. Under the terms of this law, on April 1, 1985—the day after the paid diversion program ends—the dairy price support level may be cut another 50 cents per hundred weight if estimated annual CCC purchases exceed six billion pounds milk equivalent. In light of present estimates of quantities purchased by the CCC through legislated mandatory purchases of milk equivalent, these cuts will be instituted.

The federal government can only encourage a reduction in dairy herds by allowing milk prices to transmit the appropriate signals to dairy producers. Current projections suggest dairy price supports should be reduced to real market levels. Only then will milk producers be able to realistically determine the required production.

The transition for dairy farmers from heavy dependence on government regulations and price supports, to more market oriented programs will mean significant economic changes. However, such adjustments will reduce both U.S. Treasury and consumer costs, and in the long run will benefit dairy farmers.

The 1985 Farm Bill should modify the dairy program to enable market prices to reflect supply and demand conditions.

The price support provisions in the 1985 Bill should provide a transition to a longer term program that generally avoids market intervention and stock accumulation. Any income support efforts should be based on producer needs.

Price support levels should not be specified in law, nor should base levels be indexed. Price support minimums should be decreased gradually from current levels and eventually phased out. Programs that pay farmers to reduce production are not needed.

Export Initiatives—Although the market forces of supply and demand would, if left to their own devices, function well in the domestic context, that is not necessarily the case in the export market, where competition on an equal basis with foreign producers may require that the federal government intervene to offset unfair foreign marketing practices, rules, or subsidies and to develop foreign markets in a fashion not accomplishable by individual producers who lack governmental authority and cannot readily act in concert.

While the overseas market for pork appears to be limited at present to an amount that fluctuates between 2 and 3 percent of our annual production (approximately $250-$300 million), NPPC is convinced that the government could do more to enhance the overseas sales of pork products and of all major commodities. Accordingly, we endorse exploration and implementation by the federal government of a wide range of export promotion initiatives that would increase the demand for American agriculture without entailing excessive budget costs. This may be accomplished through furnishing concessional loans or supporting Public Law 480, sales and donations to needy countries, or extending export credits or any other budget-sparing device. Subsidies should be resorted to by the United States only under conditions suggesting that they are necessary to combat subsidies already extended by competing countries that have displaced us from our traditional markets.

NPPC opposes any resort to trade embargoes or any threat to utilize them applied to any goods or services produced in the United States and intended for sale overseas that operates to undermine the confidence of overseas consumers in our reliability as a supplier. We especially oppose any embargo, threatened or actual, that would focus solely upon one or more agricultural products.

Resource Conservation—NPPC recognizes that future agricultural productivity in this country depends upon the continued availability of an adequate supply of ground water and fertile cropland. It is in the long-term interest of agriculture not to exhaust these resources for short-term profit. We support any so-called "sodbuster" legislation that would deny all federal program benefits for commodities produced on certified highly erodible or marginal land.

NPPC opposes any creation of a conservation reserve through buying-up and retiring fragile or marginal lands that have been used for production because we believe that such use of federal funds would reward improper agricultural practices. The excessive costs associated with farming such land should, absent any government payment, ultimately render such land unattractive for continued exploitation. In particular, we would strongly object to any paid conservation program that encourages the use of idled land for the purpose of raising livestock.

Research and Education—NPPC is convinced that the federal government is able to undertake research and consumer education programs that are beyond the means of individual commodity producers, including pork producers, but that enhance the well-being of the American consumer by assuring the provision of an abundant, safe supply of reasonably-priced food. We endorse the continuation and expansion of research that would lower costs and enhance consumption through (1) promoting the acceptability to the consumer of pork and pork products as a healthy component of a normal diet, (2) extending the shelf life of pork and pork products, (3) improving the efficiency by which feed is transformed into edible lean pork through the incentive of pricing systems based on lean meat or through technological change, and (4) improving the collection and distribution of market information and supply forecasting in order to overcome, or at least moderate, disastrously inefficient cycles of production.

Diet/Health—NPPC urges the Senate to review the current process of developing public policy relating to nutrition messages to consumers.

We feel it is imperative that Congress establish a mechanism for the coordination of messages that government sends to the consuming public about the nutritional contribution of animal-based products and insure that any such advice is derived from sound scientific research. Government messages to consumers must not pit one government agency against another.

The government has to recognize the serious economic impact of any unfounded negative statements about the consumption of meat or livestock products that it makes or endorses and take special care before becoming involved in adversely affecting consumer demand.

The federal government engages in substantial purchases of commodities under specific programs intended to furnish foodstuffs to needy families regardless of their composition, the elderly, school children, charitable institutions, day care programs and summer camps. All told, commodity purchases for these purposes in fiscal year 1983 amounted to nearly $1.4 billion. As long as these programs continue to be funded, they should be administered in such a fashion that they do not discriminate among competitive red meat products.

In fiscal year 1983, $10 worth of beef was purchased for these donations for every $1 worth of pork, and $7.50 worth of chicken and turkey for every $1 worth of pork. The lasting effect of these discriminatory purchases and subsequent donations is to suggest, particularly to school children in their formative years (where in the school food program, the beef-to-pork and poultry-to-pork ratios were 30 to 1 and 20 to 1, respectively), that it is better to eat beef, chicken and turkey than to consume pork. Lifelong consumption habits that undermine the sales of pork and pork products are likely to result from this pattern of governmental favoritism. The government should exhibit scrupulous neutrality among competing products in handling its commodity purchases and donations.

Mr. Chairman, I thank you for this opportunity to be heard. If there are any questions, I will be glad to try to answer them.

STATEMENT OF RALPH J. ROHNER, THE COLUMBUS SCHOOL OF LAW, THE CATHOLIC UNIVERSITY OF AMERICA, ON BEHALF OF THE AMERICAN MEAT INSTITUTE

Mr. Chairman and Members of the Subcommittee: I am Ralph J. Rohner, and I am a Professor of Law at the Catholic University of America in Washington, D.C., where I have taught courses in the commercial law area for twenty years. I appear today on behalf of the American Meat Institute, the national trade association representing packers and processors of meat and meat products. I take this opportunity to bring to this Committee's attention a problem in state law that seriously threatens the economic viability of many in the agricultural community. Accompanying me is Gary Jay Kushner, AMI's Vice President and General Counsel.

We are here today to register AMI's support for the Stenholm/Gunderson "clear title" bill introduced in the House of Representatives on March 19, which would amend the Farm Bill to remedy a situation that is simply fundamentally unfair to the purchasers of agricultural products. A broad-based coalition of other organizations also representing buyers of farm products supports that bill as well. Under the uniform commercial law in all states save California, purchasers who in good faith pay sellers for farm products remain legally subject to the liens of lenders covering those farm products. If a seller/debtor defaults on the loan, or fails to account for the sale proceeds, the buyer can be forced to pay twice for the goods, once at the time of sale and again—often months or years later—when the bank or other lender sues the purchaser for conversion of its collateral. This result obtains because of an antiquated limitation on the good faith purchaser rule in section 9-307 of the Uniform Commercial Code. Buyers of commercial inventory generally take free and clear of earlier security interests, but buyers of agricultural inventory—"farm products"—do not.

We have earlier submitted to both the Senate and the House an extensive analysis of this state law rule, and we would be happy to supply further copies of that analysis to this Committee and its staff.

Hearings were held on this problem in the House in 1983 and 1984, and in the Senate in 1984. The record of those hearings is replete with first-hand testimony of the hardship and inequity caused by the UCC provision. The aggregate amount of claims filed by lenders against innocent purchasers of crops and livestock easily runs into millions of dollars just based on the statements of prior Congressional witnesses. The typical case is one where a rancher or farmer sells his crop or herd to a buyer who is unaware that there are outstanding liens on the goods. The producer fails to account for the sale proceeds to the lender holding the security interest, and when the producer then defaults on the loan the lender files a claim against the buyer on the theory that the purchaser has unlawfully "converted" the lender's collateral. Such claims force the buyer to pay again for the same goods.

The source of this problem—the so-called "farm products exception" of the UCC—is, we submit, an unjustifiable rule of law that ought to be abrogated by federal statute, as the Stenholm/Gunderson bill would do.

Our earlier statements describe the anomalous nature of the farm products exception, its uncertain history, its disfavored treatment by some courts, and its harsh and unpredictable burden on farm products buyers. To summarize:

The special farm products rule runs against the grain of general commercial law which seeks to encourage the free flow of commerce by protecting good faith purchasers from the risk of prior liens. Generally, the law allows buyers who purchase goods in the normal course of business to acquire full ownership. For example, when a customer pays a retailer for a refrigerator, the bank that is financing the retailer's inventory cannot thereafter pursue a claim against the customer. The same rule would apply when the retailer purchases its stock of appliances from the manufacturer: as a buyer in the ordinary course of business, the retailer would be protected from claims by the manufacturer's bank. By contrast, under the special rule for farm products, the continuation of the lenders' security interest frustrates the free movement of goods in commerce, and has never had clear policy justification.

Farm products purchasers are, as a practical matter, utterly unable to verify reliably the existence of security interests at the time of purchase. The UCC filing system which theoretically discloses such liens, is generally based on filings in the producer's home county, a location that is effectively often inaccessible in the short time frames in which farm products sales are conducted, particularly when those sales are conducted on an interstate basis.

The effect of the rule gives the farm products lender a set of involuntary guarantors on every loan it writes. A borrower's failure to account for the proceeds of sale becomes the risk not of the professional lender, but of the various innocent third parties downstream in the distribution chain. The persistence of the rule bodes ill for the financial health of farm products purchasers, especially small operators who simply cannot afford to pay twice for their agricultural commodities.

The Stenholm/Gunderson bill recognizes the basic unfairness of the present farm products exception. The case against the rule is so strong and self-evident—in law school we would say prima facie—that Congress' failure to act on it must be based on compelling grounds. We suggest, therefore, that the burden is on the agricultural lending industry to demonstrate a justification for continuing the rule. They have failed to make any case in prior Congressional testimony.

The lenders argue that commerce in farm products is somehow so unique—compared to other forms of commercial inventory—that the farm products exception is necessary for one but not the other. We deny any such uniqueness to farm products financing. Decisions to lend in all cases are based on prudent assessments of the borrower's capacity and character. The burdens assumed by commercial inventory lenders always include monitoring their debtors' activities, and one of the inherent risks is the possible loss of collateral to third party buyers in the ordinary course of business; yet inventory financing flourishes. We have heard nothing that supports any claim by farm products lenders that their market uniquely entitles them to protections not available to other commercial financers.

The lenders suggest that the buyers of agricultural products enjoy "inherent advantages" to protect against the risk of seller default. On the contrary, in the hurly-burly of cash sales, buyers are virtually powerless to determine, on their own initiative, the existence of outstanding liens and the identities of the lienholders. They buy blind. The lenders, on the other hand, are risk-taking professionals who ought to be able to monitor their debtors' activities sufficiently well to prevent dissipation of proceeds. It may well be that the farm products rule has contributed to shoddy lending practices.

Then the lenders raise the bogeyman objection that repeal of the farm products exception would substantially increase their financial losses and thus significantly raise the cost of credit. We disagree. Whatever impact a change in the law might have, its effects on the cost and availability of farm credit are likely to be negligible if even measureable. The state of California repealed the farm products exception in 1976; if there is any evidence that our largest agricultural state, or the lenders or producers within it, are suffering on that account, we are unaware of it. The likely reality is that, with the farm products exception gone, lenders will tighten their administrative supervision of producers to minimize the risk of unaccounted for proceeds. It could be that changing the law in this regard will reduce lender losses by encouraging more prudent practices across the board.

Finally, the lenders argue that a number of states are experimenting with techniques to ameliorate the effects of the farm products exception, and that federal preemption is therefore inappropriate. The argument collapses on itself. Yes, some states have enacted legislation, but the content and form of those special rules vary in each enacting jurisdiction. The overlay of these recent enactments on the UCC itself creates a new dimension of complexity for lenders, producers and buyers. It is counterproductive in interstate sales settings where the applicability and details of a given state's law may be in doubt.

More fundamentally, what the state legislative activity has produced is substantial non-uniformity among the states on the respective rights and obligations of lenders and buyers of agricultural products. Allowing the states to continue this idiosyncratic tinkering with the UCC can only lead to greater uncertainty as to the controlling law. It is a disingenuous argument to suggest that a problem that arises from a provision of the Uniform Commercial Code should be left to non-uniform resolution by the states.

What these circumstances really indicate, we submit, is the need for a uniform national rule that fairly respects the needs of buyers of agricultural products. A uniform national rule is not likely to emerge from the states or from the UCC sponsors. Congress has not only the prerogative but the responsibility to supply the needed stability and consistency. This is especially true in the case of the agricultural markets for which Congress has already assumed a substantial supervisory role, and for the Federal farm credit programs where state rules would be preempted by Federal policies.

Ultimately, the sole question presented by the Stenholm/Gunderson bill is whether Congress should act to correct an inequitable and capricious state law rule that has inflicted millions of dollars of losses on purchasers of farm products. We certainly believe Congress should so act, along the lines of this bill.

The pending bill offers a temperate, workable solution. Buyers of farm products in the ordinary course of business would be protected from prior liens, but a buyer would not qualify for this protection if the buyer had been specifically notified of the outstanding lien and had then failed to issue a joint-payee check or otherwise comply with the lender's conditions for release of its lien. Both the lender and the buyer would assume responsibilities for assuring that the sale proceeds were not dissipated. This is an approach all parties should be able to live with, without hardship on either side.

Mr. Chairman, we encourage favorable action by this Committee and the Congress to eliminate or modify the farm products exception. Thank you for considering the views of the American Meat Institute. I will be happy to answer any questions.

STATEMENT OF KEITH PROPST, PRESIDENT OF COLORADO FARM BUREAU AND MEMBER, BOARD OF DIRECTORS, AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation is the nation's largest general farm organization with a membership exceeding three million member families in 48 states and Puerto Rico. I am a cattle, grain and sugarbeet producer from Merino, Colorado, and serve as President of the Colorado Farm Bureau and as a member of the Board of Directors of the American Farm Bureau Federation. Farm Bureau appreciates the opportunity to appear before the Senate Agriculture Committee regarding our position on the impact of farm programs on producers of livestock and poultry.

The 1985 Farm Bill is a priority issue for Farm Bureau. We represent producers of commodities that come under authority of farm programs and producers of commodities that do not operate under farm programs. The fruit, vegetable, poultry and livestock industries are not supported through loan rates, target prices and other direct government support mechanisms but are vitally important to U.S. agriculture. Over half of agriculture operates without direct government support but is affected by farm programs. All too often the impact of policies designed to assist one sector of agriculture has caused negative ramifications for the livestock and poultry industries.

We believe that in the long run, a market oriented agriculture is the best way to solve the differences between commodities. A market oriented agriculture means that supply and demand, rather than government action should ultimately determine production price. However, our delegates realize that after 50 years of farm programs revisions must not occur too abruptly.

Farm Bureau policy adopted by the voting delegates of our 66th Annual Meeting in January states:

(1) Maximize long-term opportunities for profit in agriculture;

(2) Reduce existing incentives for overproduction at home and abroad;

(3) Ensure price competitiveness for U.S. farm products in world markets;

(4) Provide opportunities to reduce stocks through production adjustments and/or expanded demand;

(5) Assure consumers of adequate supplies of efficiently produced products they wish to consume;

(6) Cause a supply reduction program to be implemented when carryover exceeds workable levels;

(7) Provide target prices as an income supplement for farmers to help them make the adjustment to a market-responsive agriculture;

(8) Provide loan levels for all major export commodities to facilitate orderly marketing and price competitiveness. These levels should be related to a 3-5 year average domestic price. Loan levels should not provide incentives for production that exceeds demand in domestic and world markets. These levels should be adjusted annually by no more than 10 percent; and

(9) Recognize that all commodities are interrelated and any change in supply, demand or price of one affects the others.

The interrelationship of commodities is of critical importance to those of our farmer and rancher members that produce commodities that are not covered by farm programs. The livestock and poultry industries are dependent upon the grain industry for feed and are affected by competition from the dairy industry as dairy animals are sold in livestock markets when herds are reduced. Changes in grain and dairy programs, therefore, play a very significant role in the determination of cost of production, livestock prices and profitability. Livestock producers are not requesting increased government intervention in our market. Instead we are attempting to reduce the impact of government intervention in livestock markets that has occurred as result of farm program policies.

To illustrate this point I would like to give the Committee members some examples of how grain and dairy programs can effect the cattle industry. I come from a substantial cattle feeding area along the South Platte River in Colorado.

As a result of the Grain PIK Program in the summer of 1983, cattle feeders could hardly find corn at any price because the government was buying up all free stocks to fulfill PIK contracts made to grain farmers. This resulted in substantial losses to cattle feeders who in turn paid less for calves.

We were just getting adjusted to that, when in the fall of 1983, Congress announced that they would consider a dairy diversion program in response to mounting surpluses. The day they announced consideration, a month before actual passage, futures markets fell and cash prices fell $5-$10/cwt at Brush, Colorado, for feeder calves. This is the largest market in Colorado and handles 5,000 to 7,000 head of cattle per week. This action cost ranchers millions before the bill was passed and the slaughter of dairy cows has had a depressing effect on the market ever since.

I would like to briefly address several specific policy concerns that are of particular importance to livestock and poultry producers. The entirety of Farm Bureau's legislative proposal is more comprehensive than I will outline for you today, but I will focus on those policy concerns of this hearing.

Loan Rates: We support loan rates that are tied to a 3-5 year average of market prices for wheat, feed grains and soybeans. We would set the loan rate at 75 percent of a five year average of domestic prices excluding the high and low valued years. To avoid wide fluctuations in loan rates, however, we propose that the rate be adjusted by no more than 10 percent in any year including the first year of the program.

Livestock producers will benefit from the use of this flexible method of setting the loan rate. Commodity loans would be based upon market signals and would not be a mechanism to set the market price. Adjustments in feed prices would occur if dictated by market conditions, and grain producers could utilize the loan as an orderly marketing tool.

Target Prices: Farm Bureau supports continued use of deficiency payments as an income supplement to producers of the crops that currently employ deficiency payments in their program. We recommend freezing target prices for 1986 at the 1985 levels. The long-term goal would be to set the target price at 110 percent of the five year average used to determine the loan rate. Adjustments to target price levels, however, would be limited to 5 percent in any year.

Acreage Reduction Programs: We support acreage reduction programs that are triggered when carryover supplies exceed workable levels. For wheat and feed grains, we recommend that the Secretary be required to call for an acreage reduction program when carryover is projected to exceed 4 percent of annual world utilization. We expect that through increased efforts to expand foreign markets under the trade title of our proposal and greater competitiveness in world markets through flexible price and income support programs, that acreage reduction programs will be used only to correct temporary imbalances; not as an annual program.

But even with these programs, we must be careful how they are implemented or they will have a detrimental effect on the livestock industry. If set-aside acres are grazed by livestock, it means more pounds of hay that must be consumed.

Farmer-Held Grain Reserve: We favor elimination of the farmer-held grain reserve. Grain farmers have learned that they cannot store their way to prosperity, and the reserve has exerted detrimental influences on livestock markets. The reserve has been used as a tool to temporarily prop up market prices in an attempt to reduce federal expenditures for deficiency payments. The buildup of supplies in the reserve has long-term negative consequences for both the grain and livestock industries. Without the reserve, we would never have accumulated the excessive stocks that gave need for a PIK program.

Dairy Program: We suggest continuation of the dairy purchase program but believe that the support rate should be tied to two measures of market conditions. First, we believe that the support price should be determined by using an average of the previous three year's all-milk price. This level will be adjusted effective October 1 of the marketing year.

Second, we believe that the basic support price should be adjusted if government purchases are not in accordance with desired levels. The Farm Bureau proposal will include specific adjustments in terms of a percentage of the support price that would be required when purchases are at any given level. If dairy purchases remain at excessively high levels, the Secretary would have authority to adjust the purchase price downward on a semi-annual basis.

I have previously described some of the negative effects of the dairy diversion program on the livestock industry. This is the most glaring example of programs designed to help one segment of the industry at the expense of another. From the standpoint of equity, we oppose policies that operate in this manner.

Conservation: We believe in conservation of these lands and believe that a long term land diversion program may be helpful to get these highly erodible lands back into grass and timber. We would help in the initial reseeding, but if they are grazed during the life of the contract, the producer would not be paid the annual rental fee.

We believe that government farm programs have provided an incentive to plow up fragile lands. For instance, in Colorado alone over 650,000 acres have been plowed in the last five years. Our policy states, "We oppose economic incentives to artificially stimulate producers to bring fragile lands under cultivation. Any producer that brings such lands under cultivation should be ineligible for any federal incentive program for any crop in his entire farming operation."

Clear Title for Agricultural Commodities: For a number of years, the livestock industry has been plagued by an unfair situation which causes farmers and other buyers of farm products to pay for a commodity twice—once to the seller for the product and again to the seller's bank if proceeds of the sale are not used to repay a secured loan. Farm Bureau is concerned about this problem because it poses an undue financial hardship on markets to which producers sell their commodities. We are interested in any problem which reduces the economic viability of agricultural markets. As the problem continues to grow, it is adversely affecting individual farmers as well as the markets to whom farmers sell their products. Farmers buy products such as feeder cattle and pigs, breeding stock, grain and hay from other producers and are required to make double payments.

In the last Congress, Senator Huddleston sponsored a bill, S. 2190, correcting this problem. We believe that the resolution of clear title for agricultural commodities should be included in the 1985 Farm Bill.

We believe that the best farm program of all, in fact the only one that will help the part of agriculture operating without direct government support, is the reduction of the federal deficit so that interest rates will come down and our products will move in world markets.

Therefore, we support a freeze on all government programs, including agricultural programs, at or below 1985 levels.

Our policies are developed and adopted by our membership which includes producers of all commodities. We continue to support farm programs but believe that they must be tied to market signals and must not prop up one segment of the industry if the effect will be injurious to another segment. On behalf of our livestock producers, I believe that our farm bill proposals accomplishes both objectives.

I look forward to working with the Committee and will be happy to respond to any questions.

[The following information was supplied by Mr. Propst:]

AN ECONOMIC ANALYSIS OF THE FARM BUREAU FARM BILL

(By Economic Research Division, American Farm Bureau Federation, April 2, 1985)

INTRODUCTION

To develop a better understanding of the economic impact of the Farm Bureau farm bill, an economic policy scenario was developed that gives some understanding of the production, consumption, price and stock responses that are likely to occur. This is not a forecast of the year-to-year price and supply/demand variables, but an attempt to analyze the policy implications of Farm Bureau's farm program proposal. Several assumptions were made about events, like drouth conditions in the United States and increased USSR purchases, that cannot be forecasted, but have a major impact on any policy actions that are taken. The purpose of this analysis is to see how Farm Bureau farm program policy responds to likely market activity over the coming four years and how the market responds to the policy actions. This analysis covers corn, wheat, soybeans, cotton, rice and dairy.

ECONOMIC AND POLICY ASSUMPTIONS

Several general economic assumptions were made about the coming four years. First, the U.S. economy will average 4 percent growth per year with the normal variations around this. This will keep domestic demand for agricultural products solid, but will not produce sharp increases in demand.

Second, world economic growth will be 3 to 4 percent per year with some middle income developing countries' economic growth rates of 6 percent per year or higher. By the late 1980's this will provide enough income in the world to move the export situation back to where it was in 1980, prior to the world recession of 1981-1983. Note that this is basically making up for losses of the last five years and is not major new growth in export demand.

Third, the dollar will decline 20 percent in value relative to other currencies from its peak in early 1985, but will stay much stronger than the very low levels experienced in 1978, 1979 and 1980.

Fourth, competitive commodity loans for feed grains, wheat, soybeans and rice will allow the U.S. to regain some lost market shares and, thus, by 1988/1989 will temper the production expansion efforts that our major competitors have pursued since the late 1970's. Cotton's competitive position will likely deteriorate because of expected declining real prices for oil and the resulted expansion of synthetic fiber competition.

Fifth, an assumption was made that U.S. yields per acre will continue to increase along past trends. One year out of the next four will likely have a moderate drouth that will cause a 10 percent cut in average yields. This is consistent with the past 10 years where yields vary from year to year, but about one year out of four yields fall substantially below the trend of the other years. For analysis purposes, 1987 was considered to be the drouth year.

Sixth, the Soviets were assumed to continue purchases of about 30 million metric tons (MMT) of grain in an average year with 10 MMT coming from the U.S. In one year out of four the Soviets will purchase 40 to 50 MMT and a substantial portion of this will come from the U.S. For the purpose of this analysis, 1988 was considered to be the year of large Soviet purchases.

Seventh, the conservation reserve program was established with an objective of taking 15 million acres of highly erosive land out of production at the lowest possible cost.

This policy scenario was based on the assumption that the programs will be operated consistent with general Farm Bureau farm program policy goals. This includes export expansion through the use of price competitive commodity loans, increased PL-480 commitment, expansion of the CCC export credit guarantee program, continuation of the blended credit program, continued efforts in market development and product promotion and development of the export bonus program to compete in selected existing and new markets. The farmer-held reserve is ended and replaced by the extended loan program. Acreage reduction programs are used when carryover stocks are expected to exceed workable levels. The target price is used as an income protection program. Stock programs and acreage reduction programs are run so as to minimize any adverse impact on the livestock and poultry industries.

ANALYSIS

Corn

In this analysis, estimated corn prices had a range of $2.49 per bushel to $3.02 per bushel. This is not the range of all possible prices, but is the range of estimated prices that occurred with our assumptions. The low price came in 1986/1987 and the high price came in the drouth year of 1987/1988. After the drouth year, prices averaged $2.69 and $2.75 per bushel in 1988/1989 and 1989/1990, respectively. A 10 percent acreage reduction program (ARP) was necessary all four years. Two million acres of corn land became part of the conservation reserve program. Livestock feeding of corn was fairly even over the four years with a 300 million bushel reduction during the drouth year. Commercial exports grew over the four years with a slight reduction in the drouth year as higher prices ration supplies.

Government-controlled stocks, farmer-held reserve and CCC owned, stay at high levels in 1986/1987, but move onto the market in 1987/1988. The extended loan is used in 1985/1986 and 1986/1987. The four-year cost of deficiency payments was estimated at $4.2 billion. The farmer-held reserve for corn cost a total of $265 million for 1986/1987 and 1987/1988.

Wheat

Wheat prices stayed in a narrow range of $3.09 to $3.25 per bushel. The $3.09 occurred in 1986 and the $3.25 in the drouth year of 1987/1988. After that, prices averaged $3.14 and $3.09 per bushel in 1988/1989 and 1989/1990, respectively. Eight million acres entered the conservation reserve program. A 15 percent ARP was necessary in 1986/1987 and 1987/1988, and a 10 percent ARP was necessary for 1988/1989 and 1989/1990. Feed use increased in 1987/1988 in response to the higher corn prices. The USSR purchased 50 million bushels more wheat than normal for the same reason. Commercial wheat exports increased all four years.

The combination of ARP's, drouth, large Soviet purchases and increased PL 480 shipments allowed for an orderly liquidation of the farmer-held reserve wheat stocks. CCC-owned wheat stocks declined over the four years, but remained at 250 million bushels at the end of 1989/1990. The extended reserve was used in 1986/1987, 1988/1989 and 1989/1990. The four-year cost for deficiency payments for wheat was estimated at $7.2 billion. Farmer-held reserve costs total $479 million.

Soybeans

Estimated soybean prices ranged from $5.63 to $6.83 per bushel for the four years of the analysis. No acreage reduction programs were used for soybeans. Two million acres of soybean land entered the conservation reserve program.

Domestic crush and soybean exports were reduced because of smaller supplies and higher prices resulting from the drouth in 1987/1988, but crush and exports returned to normal the following year. Soybean exports increased in all years except the drouth year of 1987/1988. No soybeans were forfeited to CCC, CCC-held stocks remained at zero, and the cost of the soybean program was zero.

Cotton

Estimated cotton prices remained in a fairly narrow range of 56 cents to 58 cents per pound. The drouth of 1987/1988 was not enough to offset the negative impact of large stocks and weak export demand. A 20 percent ARP was provided for 1986/1987, 1987/1988 and 1988/1989 and a 25 percent ARP in 1989/1990. One million acres entered the conservation reserve program. Domestic demand for cotton was flat for the four years, while exports increased by 100,000 bales per year. Other cotton exporters and synthetic fibers kept U.S. cotton on the defensive throughout the four years.

CCC-held stocks remained close to a million bales each year except for the 1987/1988 drouth year. Total carryover stocks never achieved the Farm Bureau's desired goal of 3.5 million bales. The four-year cost of deficiency payments was estimated at $2.7 billion.

Rice

Estimated rice prices ranged from $7.61 per cwt. to $6.48 per cwt. The highest price came in 1986/1987, because the market price was largely determined by the commodity loan price. By 1988/1989 the market price of rice bottomed out and prices rose modestly in 1989/1990 to $7.09 per cwt. Since rice is irrigated, the drouth had no impact on the rice scenario. No rice land entered the conservation reserve program. A 20 percent ARP was provided in 1986/1987 and 1987/1988, a 15 percent ARP in 1988/1989 and a 10 percent ARP in 1989/1990. PL 480 exports were doubled to 20 million cwt. from the current average of 10 million cwt. Commercial exports increased, but did not exceed the levels of 1980/1981.

Ending year stocks slowly worked down over the four years in response to higher exports and the ARP programs. By the end of the 1988/1989 marketing year, CCC-owned stocks were at zero. The four-year cost of deficiency payments was $2.34 billion.

Dairy

Milk prices were under pressure during the four years and the all-milk price bottoms out at about $11.50 per hundredweight in 1987/1988. The price support averaged $11.50 per hundredweight for 1985/1986, $11.00 for 1986/1987, $10.60 for 1987/1988 and $10.53 for 1988/1989.

Production peaked in 1986/1987 at 142.0 billion pounds and declined slightly over the next two years, as declines in cow numbers were almost offset by increases in output per cow. Commercial use increased by 2.1 billion pounds per year. This was a combination of a trend increase of 1.1 billion pounds and a one billion-pound increase resulting from lower milk prices and increased promotion.

CCC purchases were estimated at 10.8 billion pounds in 1985/1986, 10.9 billion in 1986/1987, 8.8 billion in 1987/1988 and 6.1 billion in 1988/1989. The four-year cost of CCC purchases was estimated at $4.69 billion.

Impact on Livestock and Poultry

The impact on livestock and poultry was minimal. Even with a drouth, increases in feed costs were moderate because of feedgrains coming out of the reserve and the commodity loan for wheat that allowed substantial amounts of wheat to be fed. Competitive feedgrain and wheat commodity loans also encourage the Soviets to purchase wheat for livestock feed rather than put excessive pressure on corn prices. The commodity loan for soybeans has no impact on soybean meal prices. Livestock numbers expand during the first year of the program and remain stable during the last three years of the analysis.

Conservation Reserve Program

The conservation reserve program took 15 million acres of highly erodible soil out of production, with 8 million acres of wheat, 2 million corn, 2 million soybeans, 1 million cotton and 2 million of other crops. Average seeding allowance was $70 per acre and yearly maintenance payment was $40 per acre. One-fourth of the acreage was used for pasture in the third and fourth years and no maintenance payment was made. The four-year cost of the program was estimated at $2.5 billion.

Total Program Cost

The total four-year cost of the program for deficiency payments, farmer-held reserve, conservation reserve and dairy was estimated at:

[In billions of dollars]

Corn	4.2
Wheat	7.2
Soybeans	0.0
Cotton	2.7
Rice	2.3
Dairy	4.7
Farmer-held reserve	0.9
Conservation reserve	2.5
Total	24.5

Cost for other crops and livestock not covered in this analysis was estimated at $2.0 billion. Thus, total cost of the four-year program was estimated at about $26.5 billion plus any forfeitures on CCC commodity loans. No adjustment was made for lower deficiency payments resulting from the $50,000 per year limit because of difficulty in making estimates. Past studies indicate that deficiency payments may be 10 percent less because of the payment limit.

No estimates of the cost of the export portion of the bill were made, because it is not part of the price support and related activities portion of the USDA budget.

CUMULATIVE POLICY IMPACT

This economic policy scenario indicates that under normal circumstances the Farm Bureau farm bill moves the crops and dairy industry toward a balance of supply and demand. Export opportunities are enhanced and carryover stocks are reduced. The dairy industry also moves close to balance by 1988/1989. Acreage reduction programs were needed during most years, but the size of the reduction programs are low and/or decline over the four years, except for cotton. The U.S. share of the world market improves over the four years. By the end of the four years, U.S. agriculture is in a much better position to capitalize on market opportunities of the 1990's.

The cost of the program is substantial, but much of the cost comes in the first two years as agriculture overcomes the policy mistakes of the past eight years.

APPENDIX

Details of Analysis

FARM BUREAU FARM BILL POLICY SCENARIO 1986–89 SUPPLY AND DEMAND FACTORS

Corn

Base acreage for 1985 at 83.0 million acres. 2.0 million acres is taken out by a conservation reserve program. Effective base is 81.0 million acres.

One million acres of corn is planted each year that is outside the ASCS base.

Conservation reserve results in an increase in average yield per acre of 1.0 bushels.

Trend yield increase of 1.75 bushels per year from a base of 109.25 bushels per acre in 1985/1986.

Yield increase of 0.5 bushels per acre when an ARP is in effect.

Drouth in 1987 reduces yield by 10 percent from expected yield.

Assume a 10 percent ARP in 1986/1987 through 1989/1990 with 50 percent participation.

Normal feed use is considered to be 4.4 billion bushels.

Feed use is 4.5 billion bushels in 1986/1987 because of expanding pork and poultry feeding.

Feed use is 4.1 billion bushels in 1987/1988 because higher corn prices resulting from the drouth causes a slight drop in total livestock and poultry and shift to more wheat feeding.

Food use is expected to increase by 20 million bushels per year from a base of 870 million bushels in 1985/1986.

Gasohol use will increase by 30 million bushels per year from a base of 210 million bushels in 1985/1986.

USSR and PRC purchase 250 million bushels of corn in a "normal" year. USSR will get 200 plus million bushels.

In 1987 USSR reduces corn purchases by 50 million bushels because of relative price of U.S. corn and wheat.

In 1988 USSR purchases additional 150 million bushels of corn because of short crop in USSR.

PRC purchases do not change over the 4 years.

PL 480 and other aid are estimated at 40 million bushels per year except for 1987/1988 when only 20 million bushels move because of the smaller U.S. crop.

Commercial corn exports will expand 5 percent per year. Exports will not stay on this path in 1987/1988 due to the drouth-reduced U.S. corn crop, but the path is resumed in 1988/1989.

Corn held in the farmer-held reserve is eliminated by the end of 1987/1988.

Some corn enters the extended reserve in 1985/1986 and 1986/1987.

CCC-owned stocks are slowly drawn down over the four years.

Price support loan for 1986/1987 is reduced by 10 percent from the 1985 level to $2.30 per bushel.

Price support loan for 1987/1988 is reduced by 10 percent from the 1986 level to $2.07 per bushel.

Price support for 1988/1989 and 1989/1990 is set at 75 percent of the last 5-year average market price with the highest and lowest priced years excluded.

Target price for 1986/1987 is frozen at the 1985/1986 level of $3.03 per bushel.

Target prices for 1987/1988, 1988/1989, and 1989/1990 are set at 110 percent of the 5-year moving average market price, excluding the highest and lowest price years.

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO

[Corn]

Variable/year	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
			MILLION ACRES			
Acreage:						
Base acreage	81.4	81.4	81.0	81.0	81.0	81.0
Planted	79.8	81.0	78.0	78.0	78.0	78.0
Harvested	71.8	71.3	68.6	68.6	68.6	68.6
			BUSHELS PER ACRE			
Yield:						
Trend yield			110.5	112.3	114.0	115.8
CR factor			1	1	1	1
ARP factor			0.5	0.5	0.5	0.5
Weather factor			0	−11.5	0	0
Est yield	106.6	108.7	112.0	102.3	115.5	117.3
			MILLION BUSHELS			
Supply:						
Beginning stocks	723	1,127	1,385	1,401	1,100	1,028
Production	7,651	7,748	7,688	7,018	7,928	8,048
Imports	2	1	1	1	1	1
Total supply	8,376	8,876	9,073	8,421	9,029	9,077
Domestic demand:						
Feed	4,200	4,400	4,500	4,200	4,400	4,400
Food	848	870	890	910	930	950
Gasohol	180	210	240	270	300	330
Seed	22	21	22	21	21	21
Total domestic	5,250	5,501	5,652	5,401	5,651	5,701

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO—Continued

[Corn]

Variable/year	1984–85	1985–86	1986–87	1987–88	1988–89	1989–90
Export demand:						
U.S.S.R. and PRC	450	300	250	200	400	250
PL480 and AID	15	40	40	20	40	40
Commercial	1,535	1,650	1,730	1,700	1,910	2,005
Total export	2,000	1,990	2,020	1,920	2,350	2,295
Total demand	7,250	7,491	7,672	7,321	8,001	7,996
Ending stocks	1,127	1,385	1,401	1,100	1,028	1,081
Farmer held reserves	485	460	300	0	0	0
Extended loan	0	400	375	0	0	0
CCC owned	265	265	265	165	100	25
"Free" stocks	377	260	461	935	928	1,056
DOLLARS PER BUSHEL						
Prices:						
Farm price	$2.65	$2.59	$2.49	$3.02	$2.69	$2.75
Loan rate	$2.55	$2.55	$2.30	$2.07	$2.06	$1.98
Target	$3.03	$3.03	$3.03	$2.90	$3.03	$2.91

Source: Economic Research Division, American Farm Bureau Federation, Apr. 2, 1985.

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO

[Corn program costs]

Variable/year	1986–87	1987–88	1988–89	1989–90
Base acreage (millions)	81.00	81.00	81.00	81.00
Percent compliance [1]	50.00	50.00	50.00	50.00
Percent base paid on [2]	90.00	90.00	90.00	90.00
Base yield	110.50	112.25	114.00	115.75
Target (per bu.)	3.03	2.90	3.03	2.91
Loan (per bu.)	2.30	2.07	2.06	1.98
Market (per bu.)	2.49	3.02	2.69	2.75
Def pay Rate/bu [3]	0.54	0.00	0.34	0.16
Def pay (billions)	$2.18	$0.00	$1.39	$0.65

[1] Percent of base acres enrolled in the Acreage Reduction Program.
[2] Base acres enrolled minus acres idled.
[3] Target price minus market price or loan price, whichever is higher.

Source: Economic Research Division, American Farm Bureau Federation, Apr. 2, 1985.

FARM BUREAU FARM BILL POLICY SCENARIO—1986–89 SUPPLY AND DEMAND FACTORS

Wheat

Base acreage in 1985 at 94.5 million acres.

8.0 million acres taken out by conservation reserve program.

Effective base of 86.5 million acres.

Assume no wheat acreage outside the base.

Conservation reserve results in an increase in average yield per harvested acre of 1.0 bushel.

Trend yield increase of 0.4 bushels per year from a base of 36.4 bushels per acre in 1985/1986.

Drouth in 1987 reduces yield by 10 percent from expected yield.

Assume 15 percent ARP in 1986/1987 and 1987/1988 with 70 percent participation and a 10 percent ARP in 1988/1989 and 1989/1990 with 70 percent participation.

Yields increase 0.5 bushels per acre with ARP.

Wheat feed use in normal year is 250 million bushels.

Feed use is 400 million bushels in 1987/1988 with smaller corn crop because of drouth.

Food use goes up 10 million bushels per year, seed use flat at 100 million bushels.

USSR and PRC buy 300 million bushels in a normal year (170 USSR, 130 PRC).

With smaller U.S. corn crop in 1987 because of mild drouth, Soviets increase wheat purchases for use as feed by 50 million bushels above base.

Drouth in USSR in 1988 cause them to purchase 100 million bushels above base for a total of 400 million bushels USSR and PRC purchases.

PRC purchases remain flat at 130 million bushels per year.

PL 480 and other aid is increased to 200 million bushels for 1986/1987 and 1987/1988 and then declines to 175 million bushels for 1988/1989 and 150 million bushels in 1989/1990.

Commercial exports increase 5 percent per year from 1,050 bushels in 1985/1986.

Farmer-held reserve wheat stocks decline as this program is terminated.

Some use of extended loan in 1986/1987, 1988/1989 and 1989/1990.

CCC-owned stocks at end-of-year decline from 450 million bushels in 1986/1987 to 250 million bushels by 1989/1990.

Price support loan for 1986 is reduced 10 percent from the 1985 level of $3.30 per bushel.

Price support loan for 1987 is reduced 10 percent from the 1986 level of $2.97 per bushel.

Moving average market price with the high and low years excluded.

Target price for 1986 frozen at the 1985 level of $4.38 per bushel.

Target prices for 1987, 1988, and 1989 reduced by 5 percent from the previous year's level. Target prices are 1987—$4.16; 1988—$3.95; 1989—$3.76.

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO

[Wheat]

Variable/year	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
			MILLION ACRES			
Acreage:						
Base acreage	93.7	93.7	86.5	86.5	86.5	86.5
Planted	79.5	75.0	77.1	77.1	80.4	80.4
Harvested	66.9	67.5	69.4	69.4	72.3	72.3
			BUSHELS PER ACRE			
Yield:						
Trend yield			36.8	37.2	37.6	38
CR factor			1	1	1	1
ARP factor			0.5	0.5	0.5	0.5
Weather factor			0	'3.9	0	0
Estimated yield	38.8	36.9	38.3	34.8	39.1	39.5
			MILLION BUSHELS			
Supply:						
Beginning stocks	1,399	1,444	1,359	1,398	925	926
Production	2,598	2,490	2,657	2,414	2,829	2,858
Imports	7	2	2	2	2	2
Total supply	4,004	3,936	4,018	3,815	3,756	3,785
Domestic demand:						
Feed	375	300	250	250	400	2500
Food	645	655	670	680	690	700
Seed, etc	90	97	100	100	100	100
Total domestic	1,110	1,052	1,020	1,180	1,040	1,050
Export demand:						
U.S.S.R. and PRC	325	300	300	350	400	300
P.L. 480 & AID	150	175	200	200	175	150
Commercial	975	1,050	1,100	1,160	1,215	1,275
Total export	1,450	1,525	1,600	1,710	1,790	1,725
Total demand	2,560	2,577	2,620	2,890	2,830	2,775

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO—Continued

[Wheat]

Variable/year	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Ending stocks	1,444	1,359	1,398	925	926	1,010
Farmer held reserves	650	530	360	200	0	0
Extended loan	0	30	0	160	290	
CCC owned	415	450	450	370	300	250
"Free" stocks	379	379	558	355	466	470
DOLLARS PER BUSHEL						
Prices:						
Farm price	$3.40	$3.32	$3.09	$3.25	$3.14	$3.09
Loan rate	$3.30	$3.30	$2.97	$2.67	$2.49	$2.43
Target	$4.38	4.38	$4.16	$3.95	$3.76	

Source: Economic Research Division, American Farm Bureau Federation, Apr. 2, 1985.

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO

[Wheat Program Costs]

Variable/year	1986-87	1987-88	1988-89	1989-90
Base acreage (million)	86.50	86.50	86.50	86.50
Percent compliance [1]	70.00	70.00	70.00	70.00
Percent base paid on [2]	85.00	85.00	90.00	90.00
Base yield	36.80	37.20	37.60	38.00
Target (per bu)	4.38	4.16	3.95	3.76
Loan (per bu)	2.97	2.67	2.49	2.43
Market (per bu)	3.09	3.25	3.14	3.09
Def pay rate/bu [3]	1.29	0.91	0.81	0.67
Def pay (billions)	$2.45	$1.73	$1.65	$1.39

[1] Percent of base acres enrolled in the Acreage Reduction Program.
[2] Base acres enrolled minus acres idled.
[3] Target price minus market price or loan price, whichever is higher.

Source: Economic Research Division, American Farm Bureau Federation, Apr. 2, 1985.

FARM BUREAU FARM BILL POLICY SCENARIO—1986-89 SUPPLY AND DEMAND FACTORS

Soybeans

Soybeans do not have an ASCS base acreage. For this analysis the assumption is made that "normal" plantings for soybeans would be 70.0 million acres.

Two million acres will be taken out by the conservation reserve program.

Effective planting base in 1986 is 68.0 million acres.

Trend yield increase of 0.3 bushels per acre per year from a base of 30.6 bushels per acre in 1985/1986.

The conservation reserve will increase average yields per acre by 0.3 bushels.

Drouth in 1987 reduces yields by 10 percent from the expected yield.

No ARP's are in effect for the 4 years.

Domestic crush will increase by 10 million bushels per year from a base of 1,100 million bushels in 1985/1986.

Domestic crush will be reduced from trend in 1987/1988 to 1,020 bushels because of the small 1987 crop.

Seed use remains flat at 90 million bushels per year.

USSR and PRC purchases are expected to remain about 20 million bushels per year. This is virtually all USSR.

Commercial exports are expected to increase 5 percent per year from a base of 780 million bushels in 1985/1986. This level will not be reached in 1987/1988 because of the smaller U.S. crop, but this trend will continue after that.

No soybeans are expected to be defaulted to CCC over the 4 years.

The price support is frozen at $5.02 per bushel.

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO

[Soybeans]

Variable/year	1984–85	1985–86	1986–87	1987–88	1988–89	1989–90
MILLION ACRES						
Acreage:						
Planted	68.2	67.0	68.0	68.0	68.0	68.0
Harvested	66.0	66.0	67.0	67.0	67.0	67.0
BUSHELS PER ACRE						
Yield:						
Trend yield		30.6	30.9	31.2	31.5	31.8
CR factor			0.3	0.3	0.3	0.3
Weather factor			0	'3.2	0	0
Estimated yield	28.2	31.0	31.2	28.3	31.8	32.1
MILLION BUSHELS						
Supply:						
Beginning stocks	176	221	277	307	243	234
Production	1,861	2,046	2,090	1,896	2,131	2,151
Total supply	2,037	2,267	2,367	2,203	2,374	2,384
Domestic demand:						
Crush	1,020	1,100	1,110	1,020	1,130	1,140
Seed, etc.	87	90	90	90	90	90
Total domestic	1,107	1,190	1,200	1,110	1,220	1,230
Export demand:						
U.S.S.R. and PRC	20	20	20	20	20	20
Commercial	690	780	840	830	900	950
Total export	710	800	860	850	920	970
Total demand	1,817	1,990	2,060	1,960	2,140	2,200
Ending stocks	221	277	307	243	234	184
CCC owned	0	0	0	0	0	0
"Free" Stocks	221	277	307	243	234	184
DOLLARS PER BUSHEL						
Prices:						
Farm price	$6.10	$5.60	$5.63	$6.83	$6.27	$6.64
Loan rate	5.02	5.02	5.02	5.02	5.02	5.02
Bean/corn price [1]	2.30	2.16	2.26	2.26	2.33	2.41

[1] Price of beans divided by the price of corn.

Source: Economic Research Division, American Farm Bureau Federation, Apr. 2, 1985.

FARM BUREAU FARM BILL POLICY SCENARIO—1986–89 SUPPLY AND DEMAND FACTORS

Cotton

Base acreage for 1985 is 15.7 million acres.

One million acres of this will enter the conservation reserve.

Effective base for 1986–1989, after adjusting for conservation reserve and apparently unused base, is 13.8 million acres.

No cotton acreage is outside the base.

Trend yield increase of five pounds per acre from a 1985/1986 base of 535 pounds per acre.

Average yield per harvested acre will be increased by 20 pounds per acre because of the conservation reserve.

Cotton yield in 1987/1988 is reduced by 10 percent because of a drouth.

For 1986/1987, 1987/1988 and 1988/1989 a 20 percent ARP will be in affect with 80 percent participation. For 1989/1990 a 25 percent ARP is in affect with an 80 percent participation rate.

Mill use is expected to be flat throughout 1986/1987–1989/1990 at about 5.3 million bales per year.

Exports will show very slow growth of 100,000 bales per year from a base of 6.7 million bales in 1985/1986. World cotton demand will be under intense pressure from synthetics.

CCC-held stocks will vary between 150,000 and one million bales.

Sluggish growth in domestic and export usage will keep ending stocks higher than desirable.

Price support loan for 1986/1987 is down about 0.5 cents per pound from 1985 to 56.6 cents and remains basically flat until about a 1.5 cent decline in 1989 to 54.8 cents per pound.

Target price for 1986 is set at the 1985 level of 81 cents per pound.

Target price for 1987 is reduced 5 percent from the previous year's level to 77 cents.

For 1988/1989 and 1989/1990 the target price is 110 percent of the five-year average of spot market cotton prices, excluding the high and low years.

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO

[Cotton]

Variable/year	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
MILLION ACRES						
Acreage:						
Base acreage	15.60	15.60	13.80	13.80	13.80	13.80
Planted	11.15	11.00	11.60	11.60	11.60	11.00
Harvested	10.46	10.20	10.80	10.80	10.80	10.20
POUNDS PER ACRE						
Yield:						
Trend yield	610	535	540	545	550	555
CR factor	0	0	20	20	20	20
ARP factor	0	0	10	10	10	10
Weather factor	0	0	0	'57	0	0
Estimated yields	610	535	570	518	580	585
Base yield	518	531	557	563	548	563
MILLION BALES						
Supply:						
Beginning stock	2.76	4.33	3.72	4.47	3.95	4.43
Production	13.29	11.37	12.83	11.66	13.05	12.43
Imports	0.03	0.03	0.03	0.03	0.03	0.03
Total supply	16.08	15.72	16.57	16.15	17.03	16.88
Demand:						
Mill use	5.30	5.30	5.30	5.30	5.30	5.30
Exports	6.50	6.70	6.80	6.90	7.30	7.10
Total demand	11.80	12.00	12.10	12.20	12.60	12.40
Unaccounted	0.06	0.00	0.00	0.00	0.00	0.00
Ending stocks	4.33	3.72	4.47	3.95	4.43	4.48
CCC held stocks	0.80	0.40	0.80	0.15	0.90	1.00
"Free" stocks	3.53	3.32	3.67	3.80	3.53	3.48
DOLLARS PER POUND						
Farm price/bu	.601	.629	.575	.584	.579	.566
Loan rate/bu	.550	.572	.566	.566	.563	.548
Target/bu	.810	.810	.810	.770	.762	.741

Source: Economic Research Division, American Farm Bureau Federation, Apr. 2, 1985.

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO

[Cotton program costs]

Variable/year	1986–87	1987–88	1988–89	1989–90
Base acreage (million acres)	13.800	13.800	13.800	13.800
Percent compliance [1]	80.000	80.000	80.000	80.000
Percent base paid on [2]	80.000	80.000	80.000	75.000
Base yield/acre	540.000	545.000	550.000	555.000
Target	.810	.770	.762	.741
Loan	.566	.566	.563	.548
Market (spot)	.630	.640	.635	.620
Def pay rate/bu [3])	.180	.130	.127	.121
Def pay (billions)	.858	.626	.617	.556

[1] Percent of base acres enrolled in the Acreage Reduction Program.

[2] Base acres enrolled minus acres idled.

[3] Target price minus spot market price or loan price, whichever is higher.

Source: Economic Research Division, American Farm Bureau Federation, Apr. 2, 1985.

FARM BUREAU FARM BILL POLICY SCENARIO—1986–89 SUPPLY AND DEMAND FACTORS

Rice

Base acreage in 1985 at 4.3 million acres.

Effective base, after adjusting for apparently unused base, 3.9 million acres.

No rice acreage outside the base and no conservation reserve program.

Trend yield increase of 15 pounds per acre per year from a base of 4,690 pounds in 1985/1986.

Since rice is irrigated, no yield reduction from mild drouth in 1987/1988.

For 1986/1987 and 1987/1988 a 20 percent ARP will be in affect with a 95 percent participation rate. A 15 percent ARP will be in affect for 1988/1989 and a 10 percent ARP for 1989/1990, with a 95 percent participation rate for both years.

Domestic food use will increase about one million hundredweights per year from a base of 41.4 million hundredweights in 1985/1986.

Seed use will remain unchanged at 3.2 million hundredweights.

Industrial use will increase by 0.5 million hundredweights per year from a 1985/1986 base of 11.8 million hundredweights.

PL 480 exports are increased from current rate of 10 million hundredweights to 20 million hundredweights per year for 1986 to 1989.

Commercial exports will increase 5 million hundredweights per year.

CCC-owned stocks are reduced to zero by the end of the 1987/1988 marketing year.

Price support loan for 1986/1987 is reduced by 10 percent from the 1985/1986 level to $7.20 per hundredweight.

Price support loan for 1987/1988 is reduced by 10 percent from the 1986/1987 level to $6.48 per hundredweight.

Price support loan for 1988/1989 and 1989/1990 is 75 percent of the past 5-year average market price excluding the highest and lowest price years.

Target price for 1986/1987 is set at the 1985 level of $11.90 per hundredweight.

Target prices for 1987/1988, 1988/1989 and 1989/1990 are reduced 5 percent each year from the previous year's level—1987, $11.31; 1988, $10.74; 1989, $10.20.

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO

[Rice]

Variable/year	1984–85	1985–86	1986–87	1987–88	1988–89	1989–90
	MILLION ACRES					
Acreage:						
Base	4,162	4,162	3,900	3,900	3,900	3,900
Planted	2,800	2,500	3,160	3,160	3,344	3,530
Harvested	2,780	2,480	3,140	3,140	3,324	3,510
Yield lbs/acre	4,966	4,690	4,705	4,720	4,735	4,750

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO—Continued

[Rice]

Variable/year	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
MILLION HUNDREDWEIGHTS						
Supply:						
Beginning stock	47.0	63.1	40.0	38.9	31.7	27.2
Production	138.1	116.3	147.7	148.2	157.4	166.7
Imports	1.1	1.0	1.0	1.0	1.0	1.0
Total supply	186.1	180.4	188.8	188.1	190.1	194.9
Utilization:						
Food	39.6	41.4	42.4	43.4	44.4	45.4
Seed	3.2	3.2	3.2	3.2	3.2	3.2
Industry	11.2	13.8	12.3	12.8	13.3	13.8
Total domestic	54.0	58.4	57.9	59.4	60.9	62.4
Commercial exports	52.0	59.0	64.0	69.0	74.0	79.0
P.L. 480 exports	10.0	15.0	20.0	20.0	20.0	20.0
Total exports	62.0	74.0	84.0	89.0	94.0	99.0
Total utilization	116.0	132.4	141.9	148.4	154.9	161.4
Residual	7	8	8	8	8	8
Total ending stocks	63.1	40.0	38.9	31.7	27.2	25.5
CCC owned	39.2	22.0	18.0	7.0	0.0	0.0
"Free" stocks	23.9	18.0	20.9	24.7	27.2	25.5
DOLLARS/CWT						
Prices:						
Farm price	$8.19	$8.06	$7.61	$6.92	$6.48	$7.09
Target price	11.90	11.90	11.90	11.31	10.74	10.20
Loan price	8.00	8.00	7.20	6.48	5.96	6.02

Source: Economic Research Division, American Farm Bureau Federation, Apr. 2, 1985.

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO

[Rice program costs]

Variable/year	1986-87	1987-88	1988-89	1989-90
Base acreage	3,900.00	3,900.00	3,900.00	3,900.00
Percent compliance [1]	95.00	95.00	95.00	95.00
Percent Base paid on [2]	80.00	80.00	85.00	90.00
Base yield	4,705.00	4,720.00	4,735.00	4,750.00
Target	11.90	11.31	10.74	10.20
Loan	7.20	6.48	5.96	6.02
Market	7.61	6.92	6.48	7.09
Def pay rate/cwt [3]	4.29	4.39	4.26	3.11
Def pay (billion dollars)	0.60	0.61	0.64	0.49

[1] Percent of base acres enrolled in the Acreage Reduction Program.

[2] Base acres enrolled minus acres idled.

[3] Target price minus market price or loan price, whichever is higher.

Source: Economic Research Division, American Farm Bureau Federation, Apr. 2, 1985.

FARM BUREAU FARM BILL POLICY SCENARIO—1986–89 SUPPLY AND DEMAND FACTORS

Dairy

Cow numbers will average 10.9 million head in 1985/1986, up from recent months' levels of 10.8 million head, but less than the 1983/1984 average of 11.1 million head.

Numbers decline to 10.8 million head in 1986/1987, 10.6 million in 1987/1988 and 10.4 million in 1988/1989.

Production per cow will come back strong and average 12,924 pounds in 1985/1986. Production will increase after that at the 20-year trend rate of 224 pounds per cow.

Total production will be 139.8 billion pounds in 1985/1986, 142.0 billion pounds in 1986/1987, 141.7 billion pounds in 1987/1988 and 141.4 pounds in 1988/1989.

Imports were set at 2.7 billion pounds for each year.

Use on farms was set at 2.4 billion pounds for each year.

Commercial use was forecast to increase by 2.1 billion pounds per year from a base of 127.2 billion pounds in 1984/1985. This is a combination of 1.1 billion pounds per year trend increase in consumption and a 1.0 billion pound per year increase due to lower milk prices and increased promotional efforts.

Private stocks were assumed to remain the same at the end of each year.

Net CCC purchases were estimated at 10.8 billion pounds for 1985/1986, then 10.9 billion pounds, 8.8 billion pounds and 6.1 billion pounds.

Cost to the CCC per one billion pounds of CCC purchases was estimated at $132 million for 1985/1986 and $126 million for the next three years.

Net outlays for CCC were estimated at $1.43 billion for 1985/1986, $1.37 billion for 1986/1987, $1.12 billion for 1987/1988 and $0.77 billion for 1988/1989, for a total four-year cost of $4.69 billion.

The price support was set at $11.50 per cwt for 1985/1986, $11.00 for 1986/1987, $10.64 for 1987/1988 and $11.01 for 1988/1989.

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO

[Dairy]

Variable/year	1984–85	1985–86	1986–87	1987–88	1988–89
Number of cows (million)	10.8	10.9	10.8	10.6	10.4
Output per cow (lb)	12,611	12,924	13,148	13,372	13,496
Total production (billion lb)	136.2	139.8	142.0	141.7	141.4
Imports (billion lb)	2.7	2.7	2.7	2.7	2.7
Total supply (billion lb)	138.9	142.5	144.7	144.7	144.1
Use on Farms (billion lb)	3.4	2.4	2.4	2.4	2.4
Commercial disappearance (billion lb)	127.2	129.3	131.4	133.5	135.6
Net CCC purchases (billion lb)	8.3	10.8	10.9	8.8	6.1
Cost per billion pounds (million)	$0.138	$0.132	$0.126	$0.126	$0.126
Net CCC outlays (billion)	$1.145	$1.426	$1.373	$1.109	$0.769
Price support (hundredweight)	$12.23	$11.50	$11.00	$10.60	$10.53
All milk price (hundredweight)	$13.40	$12.40	$11.90	$11.50	$12.50

Source: Economic Research Division, American Farm Bureau Federation, Apr. 2, 1985.

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO

[Farmer-held reserve cost]

Variable/year	1986–87	1987–88	1988–89	1989–90
Corn:				
Average bushels (millions)	380	150	....	....
Per bushel storage	$0.265	$0.265	$0.265	$0.265
Per bushel interest ($2.60 at 9 percent)	$0.234	$0.234	$0.234	$0.234
Total cost (million)	$189.6	$74.9	0	0
Wheat:				
Average bushels (million)	445	280	100	....
Per bushel storage	$0.265	$0.265	$0.265	$0.265
Per bushel interest ($3.50 at 9 percent)	$0.315	$0.315	$0.315	$0.315
Total cost (million)	$258.1	$162.4	$58.0	0

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO—Continued

[Farmer-held reserve cost]

Variable/year	1986–87	1987–88	1988–89	1989–90
Corn and wheat cost (million)	$447.7	$237.3	$58.0	0
Other crops (million)	$100.0	$60.0	$30.0	0
Grand total (million)	$547.7	$297.3	$88.0	0

Source: Economic Research Division, American Farm Bureau Federation, Apr. 2, 1985.

FARM BUREAU FARM BILL POLICY SCENARIO—1986–89 SUPPLY AND DEMAND FACTORS

Conservation reserve program

Program's goal is to remove 15 million acres of highly erodible soil from production at the lowest possible cost.

Assume 8 million acres of wheat, 2 million acres corn, 2 million acres soybeans, 1 million acres cotton and 2 million acres of other crops.

Assume $70 per acre seeding allowance for first year to help producer establish cover of trees, hay or pasture.

Assume $40 per acre average cost of yearly payments to farmers to maintain cover crop.

Assume that in the third and fourth years of the program, one-fourth of the land is used for pasture and producers forego the $50 per acre annual maintenance payment.

Four-year cost of the program is $2.5 billion.

COST OF CONSERVATION RESERVE PROGRAM FOR 1986–87 to 1989–90 CROP YEARS

[Dollars in millions]

Item	Acreage	Years—				Total
		1986–87	1987–88	1988–89	1989–90	
Establishment cost	15.0	$1,050.0				$1,050.0
Yearly maintenance	15.0		$600.0	$600.0	$600.0	$1,800.0
Grazing	3.75			[1]150.0	[1]150.0	[1]300.0
Total cost		$1,050	$600.0	$450.0	$450.0	2,550.0

BASELINE ANALYSIS: FARM BUREAU POLICY SCENARIO

U.S. exports, world trade and U.S. market shares

To develop estimates of U.S. agricultural exports for the four years of the policy scenario, estimates of world trade of corn, wheat, soybeans, cotton and rice and U.S. market shares were made. In general, for corn and rice total world trade and U.S. market shares return to levels achieved in 1979 and 1980. World wheat trade grows modestly from recent levels and U.S. market shares return to the levels achieved in 1978–1982. By 1988 world soybean trade has again achieved the level occurring in 1981, and U.S. market share is back to that level. For cotton, the world trade grows modestly from current levels. U.S. market share improves modestly, but does not reach the peak hit in 1979.

Year	Corn exports million metric tons			Wheat exports million metric tons			Soybean exports million metric tons		
	United States	World	U.S. share	United States	World	U.S. share (percent)	United States	World	U.S. share (percent)
1975	43.5	60.7	72	31.9	66.0	48	15.1	19.2	79
1976	47.8	60.9	70	25.8	63.0	41	15.4	19.2	80
1977	49.5	66.4	75	30.6	72.0	43	19.1	22.3	86

Year	Corn exports million metric tons			Wheat exports million metric tons			Soybean exports million metric tons		
	United States	World	U.S. share	United States	World	U.S. share (percent)	United States	World	U.S. share (percent)
1978	54.2	71.0	76	32.5	72.0	45	20.1	24.7	81
1979	61.8	78.5	79	37.4	86.0	43	23.8	29.1	82
1980	59.8	78.5	76	41.2	94.0	44	19.7	25.3	78
1981	50.0	67.9	74	48.2	101.0	48	25.3	29.3	86
1982	47.5	64.1	74	41.0	93.0	44	24.6	28.6	86
1983	47.4	60.0	79	38.9	103.0	38	20.1	26.1	77
Estimate: 1984	50.8	67.2	76	39.5	105.0	38	19.3	26.4	73
Projected:									
1985	50.5	67.3	75	41.5	105.0	40	21.8	27.3	80
1986	51.3	68.4	75	43.5	106.1	41	23.4	27.5	85
1987	48.8	65.1	75	46.5	107.0	43	23.1	28.0	83
1988	58.8	78.4	75	48.7	108.0	45	25.0	29.4	85
1989	58.3	77.7	75	47.0	108.0	44	26.4	31.1	85

Source: Economic Research Division, American Farm Bureau Federation, Apr. 2, 1985.

FARM BUREAU FARM BILL POLICY SCENARIO—1986–89 SUPPLY AND DEMAND FACTORS

Year	Rice exports million metric tons			Cotton exports million metric tons		
	United States	World	U.S. share (percent)	United States	World	U.S. share (percent)
1975	1.7	8.4	20	0.7	4.2	17
1976	2.1	10.6	20	1.0	3.8	26
1977	2.3	9.6	24	1.2	4.2	29
1978	2.4	12.0	20	1.3	4.3	30
1979	2.7	12.7	21	2.0	5.0	40
1980	3.0	13.1	23	1.3	4.3	30
1981	2.7	11.6	23	1.4	4.4	32
1982	2.2	11.8	19	1.1	4.2	26
1983	2.3	12.5	18	1.5	4.2	36
Estimate: 1984	2.1	11.6	18	1.3	4.4	30
Projected:						
1985	2.2	11.6	19	1.45	4.5	32
1986	2.5	12.9	21	1.48	4.6	32
1987	2.7	12.3	22	1.50	4.7	32
1988	2.8	12.7	22	1.59	4.8	33
1989	3.0	13.0	23	1.55	4.7	33

Source: Economic Research Division, American Farm Bureau Federation, Apr. 2, 1985.

[The following exhibits were supplied by Benny Bunting, United Farmers Organization, see p. 126 for oral reference.]

EXHIBIT 1

BROILERS.0

Budget 40-1
1/84

BROILERS: Estimated annual revenue, operating expenses, ownership expenses and net revenue for a contract grower (one-house operation, mechanized; 26,667 chicks started per brood, 2 percent mortality, 5.5 broods per year, 143,735 birds raised per year and sold at 4.5 pounds. Assume building size is 20,000 sq. ft.; building and equipment cost of $86,000).

Category	Unit	Price	Quantity	Value	Your Value
Estimated revenue	lbs.	$0.031	646,808	$20,051[a]	______
Operating inputs:					
Litter				$ 1,078	______
Utilities				2,257	______
Equipment repair cost				430	______
Miscellaneous expenses				230	______
Total operating cost				$ 3,995	______
Returns to land, capital, labor, overhead and management				$16,056	______
Annual investment cost[b] (interest charges)		$0.13	43,000	$ 5,590	______
Returns to land, labor, overhead and management				$10,466	______
Ownership cost: depreciation[c] property taxes[d] and insurance[e]				$ 5,655 $ 6,154	______
Returns to land, labor and management				$ 4,811 4,312	______
Labor cost	hour	$4.50	756	$ 3,402	______
Returns to land and management				$ 1,409[f] $ 910	______

Prepared by Marc A. Johnson, Extension Economist, and Thomas A. Carter, Extension Poultry Specialist.

[a] Does not include value of used broiler litter.

[b] Based on one-half of the investment cost of $86,000. Annual principal and interest payments would be $12,242 for a 20-year loan at 13.0 percent interest.

[c] Depreciation based on a 20-year life for the building valued at $66,000 and = $3300 12 years for the equipment valued at $20,000. 13,300 = 2,166

[d] Based on 0.3 percent of initial investment. = 258

[e] Based on 0.5 percent of initial investment. 430

[f] No allowance has been made for the effect of the 10 percent investment tax credit.

How Can 12yrs & 20yrs life be calculated together

BROILERS.1

Budget 40-1
1/84

BROILERS: Estimated annual cash flow requirements for a contract grower based on various interest rates and debt repayment periods (one-house operation with an investment of $86,000, labor charge of $4.50 per hour and 756 hours annually equals $3,402 and other annual cash requirements of $4,683 for litter, utilities, repair, property taxes, insurances and miscellaneous expenses).

Length of Loan (Years)	Annual Cash Requirements with Interest Rates of: 11%	13%	15%
7	$26,335	$27,531	$28,756
10	22,688	23,934	25,221
12	21,331	22,618	23,950
15	20,045	21,393	22,792
20	18,885	20,327	21,825
25	18,297	19,818	21,389

Note: Cash requirement figures in the table include equal annual payments for combined interest and principal payments plus $8,085 for labor, utilities, repair, property taxes, insurance and miscellaneous expenses. No allowance has been made for the effect of the 10 percent investment tax credit or for the value of used broiler litter.

BROILERS: Estimated annual revenue and returns to land, risk and management for a contract grower based on various contract payment rates (one-house operation, 26,667 chicks started per brood, 2 percent mortality, 5.5 broods per year and 143,735 birds raised per year).

Description	Contract Payment Per Lb.: $.028	$.029	$.030	$.031	$.032	$.033	$.034
Estimated annual revenue[a]	$18,111	$18,757	$19,404	$20,051	$20,698	$21,345	$21,991
Estimated annual revenues to land, and management[b]	$- 531	$ 115	$ 762	$ 1,409	$ 2,056	$ 2,703	$ 3,349

Prepared by Marc A. Johnson, Extension Economist, and Thomas A. Carter, Extension Poultry Specialist.

[a] The estimated annual revenue is the available cash for use in meeting estimated cash requirements given in the previous table.

[b] Based on an interest cost of 13.0 percent.

EXHIBIT 2

United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN NO. 1018 (1940)

May 10, 1984

SUBJECT: FmHA Poultry Loans
Reissue of AN 806 (1940) dated January 26, 1983

TO: State Directors, District Directors
and County Supervisors

Various questions have been raised and requests for policy guidance have been received concerning FmHA's lending practices involving poultry operations - broilers, layers and turkeys. We believe it is most essential that all aspects of FmHA involvement in financing must be very carefully analyzed when processing applications for poultry enterprises. The following items, plus others pertinent to your area, should be considered:

I. Prior to making loans to new producers for new facilities, FmHA should assess the overall economic stability of the poultry industry in the area and consider the following:

1. Any indications that processors may, for any reason, restrict the area in which they will place a contract to not include the area of the proposed loan.

2. The number of farms in the area (including FmHA inventory properties) that have vacant poultry facilities due to economic conditions or do not have a contract due to surplus production.

3. Check very thoroughly comparative sales of farms with poultry facilities in the area to determine the obsolescence factors and the value of the poultry facilities to the farms.

4. FmHA must be acutely aware of the danger of overexpansion in certain areas and the adverse effect of overproduction on present FmHA borrowers and other producers. To the extent possible, the determination must be made that the FmHA loan(s) under consideration will not result in surplus production under forseeable circumstances.

II. Many poultry producers are part-time farmers who have significant off-farm income. To be determined eligible, the record must clearly show that the applicant operates the farm, does not substitute significant hired labor for the applicant's family to have a standard of living considered reasonably adequate for the area.

EXPIRATION DATE: April 30, 1985

FILING INSTRUCTIONS: File
Preceding FmHA Instruction 1941-A

III. Due to a number of factors, including changes in design required by processors, some poultry houses and facilities have security value and a useful life significantly less than other farm buildings of comparable cost, with very limited or no alternative uses. In addition, the real estate security for poultry loans is frequently small tracts of land. In most cases, the repayment period for real estate poultry loans should be substantially less than our maximum 40-year authority.

IV. Adequate waste management is obviously essential to successful poultry operations. Each loan docket will contain a detailed waste management plan approved by the appropriate local official, if required, or by the Soil Conservation Service or the Cooperative Extension Service.

V. The location of the enterprise may also affect the success of the operation. Applicants must be advised to locate the buildings so as to not interfere with the quality of life of their neighbors nor create a nuisance in the community.

IV. In determining repayment ability and overall soundness of the operation, loans should not ordinarily be based on production at continuous maximum capacity and prices. It is not unusual for processors to not immediately replace flocks during periods of surplus production.

We believe it is most important that each application for a poultry loan be very carefully analyzed, considering the above items and other circumstances pertinent to your area. The operator must be fully qualified, the security must be completely adequate, the term must be appropriate and, overall, the operator must have a reasonable chance for success.

CHARLES W. SHUMAN
Administrator

[From the Fayetteville Observer, February 1985]

FARMING PARADOX

If corporate farmer John Block succeeds in beheading the flue-cured tobacco allotment and price support program, thousands of this state's small farms will soon dry up and blow away in the whistling wind. For all those towns where everybody from the banker to the barber needs tobacco farmer trade, the tune will be a reprise of the Great Depression.

Anybody who thinks poultry's recent ascendancy over tobacco as North Carolina's leading cash crop offers a ducky road to salvation for small farmers who grow bright leaf, is full of horsefeathers.

Tobacco farmers are independent cusses. They tend to own their own equipment and, although they rent some allotments, to own their home farms and run their own operations from seedbed to warehouse sale floor. Most make good money. Smothering entrapment by large corporations which often pay poorly is unheard of.

In that way, tobacco is as different from North Carolina's booming poultry industry as sand is from salt. The broiler business, for example, is dominated by large processors. They're "vertically integrated," which in this case means they have their own feed mills, chicken breeder flocks, hatcheries, processing plants and delivery trucks. Some even have their own restaurants.

There is no binding system of regulation that adequately protects small farmers who go to work for the big processors. Farmers don't even sell broilers, to pick one example, at an auction market the way tobacco farmers sell their leaf to competing bidders. They grow chickens under a contract to a specific processor, like Gold-Kist.

Gold-Kist is a Fortune 500 firm which from its headquarters in Atlanta competes with other corporate poultry giants that include subsidiaries of vast multinational corporations, like Continental Grain. The competition has been ferocious, squeezing out smaller, less efficient processors. It has helped give us cheap, high-quality poultry products in abundance. But that doesn't help the farmer much when he is pressed to install new equipment on one side, without being paid more for his chickens on the other.

What the farmer brings to his grossly unequal relationship with the integrators is, generally, expensive modern chicken houses, other equipment, land and labor. In return he doesn't get a voice in corporate policy, employee benefits, the tobacco farmer's freedom to run his own show or, usually, any guarantee he'll get another flock to grow. And those dropped by one processor may just be out in the cold.

One Chatham County poultry farmer ruefully summed it up by saying, "We're peons." His was a sorrowful echo of what some federal analysts, many academicians and The Rural Advancement Fund/National Sharecropper Fund headquartered in nearby Pittsboro have concluded at greater length.

The turkey business isn't much different, except that the income has historically been better than for chickens. Instead of no independent producers, or close to none, as in the broiler industry, perhaps 25 out of the maybe 600 turkey producers in North Carolina are independent. Nor is egg production the exception. In overview, some 99 percent of all the nation's broilers are produced under contract, as are 90 percent of its turkeys and eggs.

So comparing North Carolina's tobacco farming industry to its poultry industry is like comparing catfish to alligators.

Tobacco, if the Reagan administration can be prevented from killing its programs, will continue to support a lot of independent family farmers, with comfort and dignity, scratching some now and then. But the poultry industry has earned a reputation for eating them alive.

Oddly, North Carolina has been favoring one of these groups of family farmers over the other. The tobacco program is defended with passion by Agriculture Commissioner Jim Graham, the governor and just about everyone else in sight who has any intention of remaining in state politics. But the average poultry farmer is scorned through a bending of the law in one case and an absence of needed law in another.

State law requires the N.C. Department of Agriculture's policy-making Board of Agriculture to consist of 10 "practical farmers," all appointed by the governor. But as the Sharecropper Fund's study notes, not one is a poultry farmer. Holly Farms Vice President John Guglielmi sits on that board, but catching him cleaning out a chickenhouse would be like finding a boll weevil plowing cotton. This is a failing Gov. Jim Martin can correct in May, when Guglielmi's term expires along with the terms of three other members.

State law specifically protects fruit and vegetable growers, with the Department of Agriculture overseeing contracts for those who sell under them. Yet the poultry producer is left to stand by himself in his unequal relationship with the integrators.

The hundreds of small Tar Heel farmers who produce broilers, turkeys and eggs for big companies deserve better protection. In the North Carolina General Assembly, where many a legislator has small farm roots, reform should flourish.

STATEMENT OF DICK FIELD, DIRECTOR OF NATIONAL AFFAIRS, ALABAMA FARM BUREAU

The livestock industry is extremely important to the economy of Alabama and the United States. During 1984 cattle producers in Alabama received $341.9 million income for their cattle and calves. This is down 2.6 percent from 1982. Many of these cattle are produced on land that is not suited for crop production.

On January 1, 1985, Alabama cattlemen were holding 1,830,000 cattle and calves, down 2 percent from a year earlier and 4 percent below January 1 two years ago. Brood cows decreased from 883,000 January 1, 1984 to 871,000 January 1, 1985. Heifers for brood cow replacement were up slightly while all other classes of cattle were at the lowest levels in years. The value of cattle and calves on Alabama farms at the beginning of the year, totaled $539.9 million, an average of $295 per head. Alabama ranked 22nd among states in total cattle and 18th in number of beef cows. Alabama's 1984 calf crop at 830,000 was the lowest in many years. Many producers were forced to liquidate herds due to low prices for 1981 through 1984 and liquidation continues as producers are trying to increase cash flow and get out of unprofitable operations. Ever increasing inflation is a major problem with cattle producers. The value of cattle in Alabama has dropped from $435 in 1980 to $295 in 1984. During this same time cost of production items doubled, tripled and even quadrupled for some items.

For many cattle producers different and better management practices helped them stay in business as production cost continues to increase. Among some of the management practices that have proved profitable are stocker programs where lightweight calves are carried to heavier weights on cool season grazing and the finishing of those cattle to slaughter weights.

According to Auburn University Extension Service, some of the major management problems facing cattle producers in Alabama are:

1. Insufficient forage production
2. Inadequate brood cow and replacement heifer nutrition
3. Low percent calf crop weaned
4. Light selling weight of calves
5. Lack of planned breeding, selection and culling programs
6. Losses due to disease and parasites
7. Marketing
8. Inadequate equipment and facilities necessary for proper management

The correction of many problems are up to individual producers; however, additional educational and research programs should be sponsored by both the USDA and Extension Service. Appropriations should be maintained at present or higher levels for animal health and research. This could help solve many of these management problems and assure continued adequate supplies of quality beef for consumers.

There are many problems that affect beef producers that are not management problems but certainly affect the economic and social structure of American beef producers. These problems are controlled by legislation and many governmental agencies such as USDA, EPA, OSHA, FDA, and others. Cattle and beef producers have typically been very independent wanting beef production to remain a free enterprise system with supply and demand controlling price. Beef producers do not want government intervention such as price freezes, embargoes, etc. and oppose any government programs that adversely effect the cattle industry.

We request that before any government agricultural program be passed into law, that a study be made by the appropriate agencies of the USDA to determine the effect on other commodities. Cattle and beef producers also feel that imports are one of the major problems affecting cattle production in the United States, even though imports are down from a year ago due to decrease in beef production in importing countries. About 10 percent of the beef consumed in the United States is imported.

Imports of beef and beef products should continue to be on a countercyclical basis to help insure a continued supply of domestic beef and help increase prices to U. S. cattle producers.

It is also recommended that imported beef products should be subject to the same inspection, sanitary, quality and residue standards as domestic products. Imported beef and beef products should be clearly labeled so that consumers would know that they were purchasing foreign beef.

In order to increase export sales of high quality U. S. beef, a more aggressive stance should be taken to gain access to foreign markets. Prospects for increasing exports of beef and other red meats appear good if certain trade barriers can be broken. An increase in exports would help increase prices cattle feeders receive for their cattle and help with the trade deficit.

Cattle producers have had many of their management tools removed and/or their use curtailed through governmental agencies banning certain products from the market. Growth harmones, such as DES, that increase beef output and feed efficiency have been taken off the market or their use limited. Nitrites used to cure meats have come under close scrutiny and could be banned from use in many products. Many feed additives such as penicillin and tetracyclines have also come under fire by the USDA and FDA and producers could lose these products.

Agricultural drugs and chemicals are needed to provide beef for America's needs. Any curtailment of the safe and appropriate usage of these products will result in lower quality and/or quantities of beef at higher cost to consumers. There should be careful consideration of all scientific data, risk and benefits and conclusive evidence presented before removal of drugs and chemicals from the market.

Imported fire ants are a serious problem in Alabama and the Southeast and there are no economical or practical means of controlling this pest. Fire ants pose an increasing danger to humans, livestock and wildlife and cause serious economic losses to cattle producers in this area. The USDA should work to get legislation passed to aid in control of fire ants and for more research for a more effective method of controlling this pest.

Brucellosis is another problem affecting the livelihood of cattle producers. Adequate funds should be available to continue the eradication programs. In the past when brucellosis was just about eradicated in many areas, funds were expanded and brucellosis infection began increasing and spreading to previously uninfected areas. With proper administration of the brucellosis program, trimming of extra staff people and continuation of cooperative agreements with the states to use available funds to contract labor for much of the work, the goal of eradication is possible in the foreseeable future.

To aid in the eradication effort, many producers feel that indemnity payments are not sufficient to replace cattle that have to be slaughtered due to brucellosis infection. It is felt that adequate funds should be made available to increase indemnity payments to levels that would aid in depopulating herds and help producers replace these cattle. Calfhood vaccination is another important tool in the eradication effort and should be continued.

Many cattle producers work an entire lifetime building up an estate with plans of leaving his land, cattle, and equipment to a son or daughter. The family member has to sell off a large portion of the farm to pay the inheritance tax. These taxes are very unfair and often cause the loss of a family farm. The Congress should work to keep the family farm together and to reduce burdensome estate taxes.

Some form of incentives for family farms could be made available to help efficient and productive family farms survive the coming years to provide needed food for the American consumer at reasonable prices.

There are many problems facing farmers and ranchers in Alabama and across the nation that need to be addressed. It is generally agreed that high interest rates are one of the greatest problems facing cattle producers. A major reason for the high rates has been government spending and large deficits. To reduce spending would be one of the best programs for agriculture.

Before decisions are made final on the 1985 Farm Bill, the outcome should be carefully weighed since thousands of farmers, cattle producers and their families will be affected for years to come.

STATEMENT OF THE KANSAS LIVESTOCK ASSOCIATION

CHEAP GRAIN MEANS CHEAP CATTLE?

The conventional wisdom is that cheap grain results in cheap cattle. However, history—particularly during the past 10 years—shows that this old adage is not necessarily true.

The problem with the theory is that it assumes that factors other than grain which affect feeding profitability are constant. Factors other than grain have become relatively more important than they once were, and those factors have become more volatile.

The volume of fed beef does not necessarily increase in direct response to cheap grain. Also, feeder cattle prices do not necessarily get bid up when grain prices decrease. Feeder cattle prices appear to be related more directly to fed cattle prices. The actual trends are shown in the accompanying chart, prepared by Cattle-Fax.

Commenting on the data which show that cattle prices do not necessarily relate directly to grain prices, Tommy Beall, director of research for Cattle-Fax, mentioned these points:

Feed costs in recent years have represented a smaller share of total cattle feeding costs than in years past. Energy costs, interest rates, inflation and general financial situations, for example, have become more important than they have been in the past.

Contrary to expectations, cattle feeding in the Corn Belt has not been increasing significantly with lower grain prices. Financial situations and government grain programs may be more significant than grain prices in affecting cattle feeding.

It always is assumed that cheap grain means feeding to heavier weights. Cattle-Fax data indicate that average slaughter weights may be lighter, partly because there is more calf feeding in times of cheap grain.

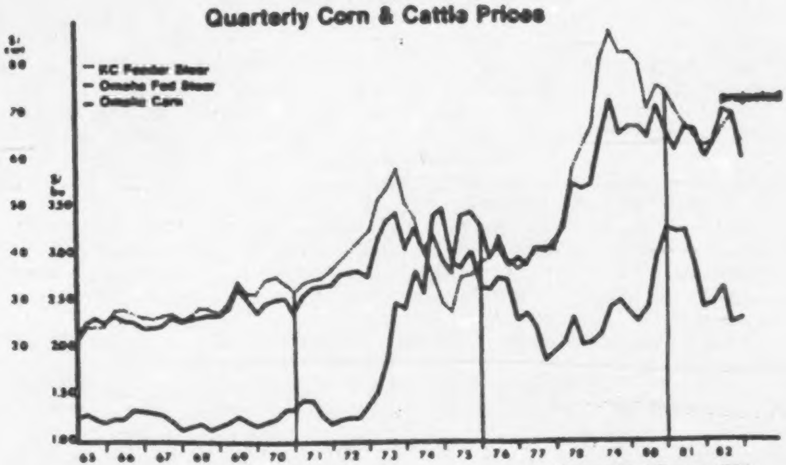
Non-fed cattle slaughter has been a more significant factor during the past decade. When grain is high, feeder cattle prices may tend to move down. This means more liquidation and non-fed slaughter, increasing the total beef supply, and putting pressure on fed prices.

The meat business is now mature. Total per capita meat supplies cannot be profitably increased. Even competitive meat producers may not respond as expected to cheaper grain prices. At any rate, situations among competitive meats may be different from what they once were.

The weak economy and other factors have caused more bearish attitudes generally—among hog as well as cattle producers. Contrary to expectations, pork production may not show much increase until 1984.

Much of the recent increase in numbers of cattle on feed is not related directly to cheaper grain. It is more a reflection of the lack of profitability in cow-calf operations. More heifers have gone into feedlots instead of being used as replacements.

The entire situation is much more complex than it once was. Better planning is necessary. More cattlemen can benefit from using a professional market information and analysis service.



Sources: Cattle-Fax and USDA

MARCH 22 HEARING—DAIRY ISSUES

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Mr. Chairman, this hearing his timely and important because of concern about the possibility of increased milk production this spring, after the end of the Dairy Diversion Program, and the need to enact responsible dairy legislation as a part of the 1985 farm bill.

We all clearly understand that the new bill must result in milk production sufficient to meet projected demand—and not a program that piles up surplus. We must work with the dairy industry to reach a consensus concerning the new dairy bill.

PENDING LEGISLATION

Two bills have been introduced to modify the Milk Price Support Program in the upcoming year and beyond. The administration's bill—S. 501—calls for an end to the Dairy Program as it has operated heretofore. Dairy farmers agree that farm programs can be amended and improved based on what has been learned from experience. Amendment does not mean termination.

Senator Helms has introduced S. 616. Under title II of the chairman's bill, the price of milk would be supported at $11.60 per hundredweight for fiscal year 1986. For fiscal years 1987 through 1991, the support price of milk would be adjusted by the Secretary of Agriculture based on his estimate of net Government purchases of dairy under the Price Support Program for the next twelve months.

Under the chairman's proposal, adjustments in the support price would be made according to a sliding scale that triggers certain reductions in the support price if Government purchases exceed specified amounts. The scale provides for a reduction of as much as $1.00 per hundredweight if Government purchases are projected to exceed 10 billion pounds.

I intend to look carefully at the proposals that are supported by dairy farmers. Dairy farmers in Vermont are deeply concerned about the possibility for surplus and the lagging demand for milk products.

An unfortunate combination of circumstances—including very low feed prices and a weak economy characterized by double-digit unemployment rates—led to the surplus of recent years. We must find a remedy for the short-term surplus problem without damaging the long-term ability of our dairy farmers to meet consumer needs. Both farmers and consumers deserve and will benefit from a sound dairy program.

PREVIOUS LEGISLATION

In several instances during past years, Congress has modified the Milk Price Support Program in an attempt to realign supply and demand.

In March of 1981, Public Law 97-6 eliminated a scheduled increase in the milk support price.

The 1981 farm bill scaled back milk support price increases for the years 1982 through 1985 that would otherwise have been required.

In 1982, the Agriculture Committee reported legislation, as a part of measures necessary to meet instructions under the budget reconciliation process for fiscal year 1983, to freeze the minimum support level for milk for three years. Became law. Under the conference report, the minimum milk price support for the 1983 and 1984 fiscal years was set at $13.10 per hundredweight.

In 1983, Congress enacted the Dairy Production Stabilization Act. Under the act (Public Law 98-180), the support price was reduced by 50 cents per hundredweight and established at $12.60 per hundredweight. The act further provides for additional reductions in the support price if net Government purchases are projected to exceed specified levels.

The Dairy Diversion Program that has operated for the past 15 months will terminate at the end of March—in less than 10 days.

On April 1, the Secretary can reduce the support price of milk by 50 cents, to $12.10 per hundredweight, if he estimates that net price support purchases of milk or milk products during the 12-month period beginning on April 1 will exceed six billion pounds (milk equivalent), but the 50 cent per hundredweight fee levied against all milk produced in the United States will be removed.

The Secretary can also make an adjustment in the support price of milk on July 1, 1985. If the Secretary estimates that net price support purchases of milk or milk products during the 12-month period beginning on July 1 will exceed five billion pounds (milk equivalent), he can reduce the price support rate in effect on July 1, by 50 cents per hundredweight. The Secretary retains his authority to increase the support rate to ensure an adequate supply of milk.

IMMEDIATE ACTION NEEDED

Mr. Chairman, we in Government must work together to find a workable and equitable solution to this complicated problem.

We must work to achieve program modifications that enhance the efforts of dairy farmers to bring production into line with demand. At the same time, we must not withdraw our commitment to ensure the availability of adequate milk and dairy products for American families.

I will not support any change in the Dairy Program that undercuts the dairy industry; and I will oppose any cut in price support that jeopardizes the vitality of Vermont's Dairy farms.

I believe that low prices for grains and depressed livestock prices are interfering with the orderly adjustment of milk production. In addition, the depressed state of the economy has hurt the demand for dairy products.

We must be careful, in fashioning dairy legislation, not to go too far and, consequently, jeopardize the milk production capacity that will be needed in coming years.

Mr. Chairman, I look forward to hearing from the witnesses on the subject of needed changes to the dairy program.

STATEMENT OF HON. ALFONSE D'AMATO, A U.S. SENATOR FROM NEW YORK

Mr. Chairman, I want to take the opportunity to thank you and your colleagues on the Senate Committee on Agriculture, Nutrition, and Forestry for permitting me to submit this testimony at this hearing on the dairy industry. I commend you for holding this hearing as the Senate begins consideration of a comprehensive 1985 farm bill.

I would like to begin by stating that New York State, to the astonishment of many, is one of the leading agricultural States in the Nation. In fact, New York ranks third nationwide in the production of milk. New York dairymen produced more than 11.6 billion pounds of milk in 1983 for a total sales value of more than $1,600,000,000. Agriculture is the largest industry in New York, and is, directly or indirectly, responsible for one out of every four jobs in the State.

1985 is an important year for agriculture. Over the next few months Congress will be drafting legislation that will have an impact on the agriculture industry for years to come. Specifically, the needs of the dairy industry must be addressed.

Keeping in mind that agriculture is, by its very nature, subject to many volatile and uncertain factors, for example the weather, a farm policy must be developed that is more market oriented. However, because these inherent uncertainties do exist, the Government must bear some responsibility to support this industry. The administration has proposed a bill, S. 501, which takes a hard line approach by reducing or eliminating certain programs during the next 5 years. This proposal would set the support price paid to dairy farmers at $11.60 with authority for the Secretary to reduce the price support by 50 cents on April 1, 1986, and again on January 1, 1987. After this date, a direct payment program would be established.

It is my belief that a drastic reduction in the Price Support Program, which has been in effect for more than 30 years, would cause irreparable harm to our dairy producers. A more sensible approach is to pursue a policy that is related more to the market and less to the political climate. I believe that most dairymen want such a policy. No dairy farmer wants to receive a "free ride" from the Federal Government. Rather, he wants a fair price for his product. To trample the entire dairy support concept, as some propose, would be a travesty.

During the 98th Congress, I introduced legislation to repeal the $1.00 per hundredweight assessment on all milk production. It is my belief that this assessment is an economic disaster. Although my proposal was prevented from coming to a vote, a "compromise" dairy bill was adopted by Congress and signed into law by the President. However, it was unfortunate that this was not accomplished until the eleventh hour and only with considerable agony and controversy. I hope we will not face a similar situation during 1985 and that the administration and the Congress will seriously examine the dairy industry today and cautiously chart a course for its future.

The dairy industry is at a crossroads. 1985 must be the year that Congress implements legislation that will benefit the dairy industry in the years to come. I believe these hearings are an important vehicle to voice the concerns of the farmer and an excellent reference point from which we can begin to draft critical legislation.

Mr. Chairman, I thank you for permitting me to submit testimony for this hearing and I commend you for your efforts in the area of Agriculture. Thank you.

STATEMENT OF NORMAN H. BARKER, PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION

Mr. Chairman, I am Norman H. Barker, President of the National Milk Producers Federation. I am a dairy farmer from Pratt, Kansas and a member of Associated Milk Producers, Inc., a dairy marketing cooperative association, headquartered in San Antonio, Texas. I commend you for conducting these hearings—a vital step in the development of a farm program to benefit not only agriculture, but the country as a whole.

THE FEDERATION

The National Milk Producers Federation is the national farm commodity organization representing dairy cooperative marketing associations owned and operated by dairy farmers throughout the nation. Most of the nation's milk supply is marketed through the cooperative associations represented by the Federation. Organized in 1916, the Federation is the oldest and largest farm commodity organization in the United States and the only organization whose policy represents a national consensus of dairy farmers.

Through the Federation, dairy farmers and their cooperatives have worked to develop government programs that can provide needed stability and orderly marketing conditions to the dairy industry. There is an inherent instability in the marketing of milk because milk is bulky and highly perishable and because production varies seasonally while demand is relatively steady throughout the year. In the absence of these valuable programs, destructive competition, price wars and other disorderly marketing conditions would again be prevalent as they were before the inception of the present dairy policy.

NATIONAL DAIRY POLICY

The Federation develops programs and policies which, in combination, represent a National Dairy Policy. As such they are an integral part of the food policy complex that has assured the production of adequate supplies of food for the American people. The elements of this dairy policy include:

1. To foster the development and growth of cooperative marketing by farmers. The Capper-Volstead Act of 1922 which extends a limited antitrust exemption to farmers so as to permit them to engage in joint marketing efforts is the cornerstone of this effort.
2. To seek a minimum level of price assurance to dairy farmers. The Dairy Price Support Program assures all dairy farmers a reasonable level of price against which plans and investments can be made. While operation of the program is focused on milk used in the production of manufactured dairy products, the pricing structure for fluid milk covered under Federal Milk Marketing Orders is such that the price support program directly affects price levels for all milk.
3. To seek to maintain orderly marketing conditions through the establishment of known terms and conditions for milk marketing between dairy farmers and milk processers. The Federal Milk Marketing Order Program provides for the classification of milk according to its use, the establishment of minimum prices for milk used in each class, the equitable distribution among the producers supplying the market of the proceeds from the sale of all milk in the market, and the verification through impartial audit of tests, weights and the utilization of milk supplied to the market.
4. To assure effective operation of our domestic dairy programs and policies by supporting limitation on dairy product imports. Conditions are such in the world market for dairy products that prices are determined primarily by the export subsidy policies of major exporting nations. If the U.S. allows this market to be used as a dumping ground for the surplus production of other nations, the best conceived and managed cooperative marketing programs, the best administered Price Support Program and the most effective Marketing Order Program would be rendered useless under the weight of unneeded stocks of dairy products.
5. To maintain the integrity of dairy products. We support all measures designed to assure the consumer that products offered as traditional dairy products are, in fact, genuine dairy products and that they are pure and wholesome. In recent years,

policies of the Food and Drug Administration have sought to promote the marketing of ersatz dairy products on the basis of the unsound, unscientific concept of "nutritional equivalency." In doing so, the agency has promoted consumer deception and confusion in contravention of the directive from the Congress under which it operates.

My statement today will be primarily directed toward what we believe is the necessary shape of a Dairy Support Program which will mesh into a general agriculture policy. A strong and fair agriculture policy must be developed this year to assure a continued variety of nutritious food for the American consumer at reasonable prices.

I will also be addressing the need for additional authority for the Federal Milk Order Program, the need to extend the Dairy Indemnity Program, the need for continued strong commodity distribution programs, and the need for continued restriction of dairy imports.

DAIRY PRICE SUPPORT PROGRAM

The basic objective of the Dairy Price Support Program as amended by the Agriculture and Consumer Protection Act of 1973 continues to be a valid statement of the need for some government intervention in the dairy economy.

The very nature of the commodity, milk, makes instability in its production and marketing inherent. Because milk is a bulky, perishable product whose production is dependent upon the biological processes of a cow, the ability of price to properly coordinate production, assembly, processing and marketing with consumption is greatly impaired.

It takes between two and one-half and three years to bring a dairy cow on to the milking string after the initial decision to breed the mother cow. Once producing, the milk from that dairy cow must be marketed daily because in its raw form milk is very perishable. Because milk is highly susceptible to contamination from bacteria and other contaminates, it must be produced and handled under very sanitary conditions. Milk that cannot be consumed in fluid form within a short period of time must be converted into more storable manufactured products. Price provides the fundamental coordination of these activities but care must be taken. Once a dairy cow has been slaughtered without a planned replacement, her productive capacity will take years to replace.

It is the need to overcome these problems that can result from complete reliance on free-market price that justifies some government involvement in the dairy industry. The objective of the Price Support Program, "an adequate supply of pure and wholesome milk to meet current needs, reflect changes in the cost of production, and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs," is met by reducing some of the pricing risks of the marketplace. A pricing criteria which seeks to balance supply and demand in the longrun must be followed if the program is to be operated in such a way that interests of dairy farmers and the taxpaying consumers, which also includes dairy farmers, are best served.

By assuring a floor under which the price of milk should not fall, dairy farmers are encouraged to make the necessary investment of time and capital in the dairy cows, equipment and facilities that can be combined into an efficient and productive unit. The assurance of a minimum price, however, is accompanied by almost equal assurance that prices will not sky rocket. Efficient operation of the program results in sufficient purchases during the flush season which may be released during the season of short supply to moderate price peaks. The operation of the support program moderates decreases and increases in productive capacity which provides for a more stable price situation for producers and a continually adequate supply for consumers.

The Agriculture and Food Act of 1981 directed the U.S. Department of Agriculture to submit to Congress a "Review of Existing and Alternative Federal Dairy Programs." One of the important findings of that report was:

"The stabilizing influence of price supports contributes positively to economic efficiency. To the extent that dairy farmers or their lenders are risk-averse, the greater the risk associated with a farming enterprise, the greater the return required to induce investment in that enterprise. Moreover, stability facilitates more efficient planning and allows better use of fixed plants and equipment. Hence, to the extent that the price support program reduces price risk and stabilizes output, production is greater at any given average price than it would be without supports." (Page 35.)

We fully support this conclusion. Although direct measures of the benefits of supply enhancement cannot be made, indirect evidence abounds.

Reviewing the price of milk and dairy products since the program's inception (Table 1) shows that consumers have benefited in real terms. Looking at the time worked by the average U.S. wage earner to earn the money to buy a given quantity of milk and dairy products shows that it has declined almost steadily. When the program was developed in 1950, 15.8 minutes of work was required to purchase a one-half gallon of milk. Last year only 7.4 minutes were required, a decline of nearly 55 percent.

TABLE 1.—TIME WORKED TO EARN MONEY TO PURCHASE [1]

	Butter, 1 lb.	Milk at stores, ½ gal.	American cheese, ½ lb. (Minutes)	Ice cream, ½ gal.
1950	29.6	15.8	11.7	[2] 35.6
1955	22.5	13.8	10.2	26.6
1960	19.5	12.8	9.0	22.2
1965	17.3	10.9	8.7	18.1
1970	15.5	10.3	9.0	15.1
1971	14.5	9.9	8.9	14.4
1972	13.7	9.4	8.5	13.5
1973	13.4	9.6	8.9	13.3
1974	12.8	10.4	9.9	14.6
1975	12.7	9.6	9.5	15.2
1976	14.7	9.3	9.9	14.6
1977	14.3	8.7	9.4	14.3
1978	14.5	8.4	9.3	14.2
1979	15.1	8.6	9.6	14.6
1980	15.5	8.7	9.7	15.0
1981	15.0	8.4	9.6	15.1
1982	14.4	7.9	9.3	14.8
1983	14.0	7.7	9.0	14.7
1984	13.8	7.4	8.8	14.5

[1] Based on hourly wage rates of all manufacturing industries.
[2] 1951.

Also as evidence, the price of milk and dairy products has not increased as much as the other items consumers buy. Reviewing the changes in the Index of Dairy Product Prices compared with the Consumer Price Index and the Index For All Food (Table 2) shows that dairy product prices have increased only 75 percent as much as the prices of all foods, and only 73 percent as much as the items in the Consumer Price Index.

TABLE 2.—SELECTED PRICE INDEXES

	Consumer Price Index	All food (1967 equals 100)	Dairy products
1970	116.3	114.9	111.8
1975	161.2	175.4	156.6
1976	170.5	180.8	169.3
1977	181.5	192.2	173.9
1978	195.4	211.4	185.6
1979	217.4	234.5	207.1
1980	246.8	254.6	227.4
1981	272.4	274.6	243.6
1982	289.1	285.7	247.0
1983	298.4	291.7	250.0
1984	311.1	302.9	253.2

The Dairy Price Support Program has provided a stability that has allowed dairy farmers to make long term commitments leading to greater efficiencies on the farm. These have resulted in reduced labor requirements and increased production per cow. In 1950, dairy farmers devoted an average of 2.36 hours of labor to the production of 100 pounds of milk. By 1983, that had declined to 0.22 hours. In 1950, the average dairy cow produced 5,314 pounds of milk. Last year, 1984 production per cow in the United States averaged 12,495 pounds of milk.

RECENT PROBLEMS

The long run accomplishments of the program must be admired. However, circumstances in the past five years outside of those which can be impacted by the Dairy Program, have put the program in jeopardy. Many of these circumstances were the direct result of government actions and the resulting impacts on the national and the international economies.

In 1979, an embargo on grain sales to the Soviet Union severely depressed the price of grain domestically and has had continuing repercussions on grain exports. With the loss of markets and faced with prices below the cost of production, many grain farmers chose to market their product in the form of milk, a commodity where some profit remained. Cheap and abundant grain also encourage existing dairy farmers to feed their dairy cows better and to increase their herd size.

As we moved into the early 1980's, high double digit inflation negatively impacted on the economy and brought on double digit unemployment. With a lack of other employment alternatives, the normal attrition of dairy farmers was halted and the available labor supply to the dairy farmer became plentiful and reasonably priced. Many a son who normally would have left the dairy farm for a job in town found that his best and possibly his only opportunity was to stay on the farm. To support two families, the father's and the son's, it was necessary to expand the milking operation. The combination of these circumstances which also included seemingly unlimited credit resulted in an expansion of milk production from 123.4 billion pound in 1979 to 140.0 billion pounds in 1983, an increase of 13.5 percent.

MILK DIVERSION PROGRAM

As surplus continued to mount in the early 1980's (from 8.2 billion pounds in marketing year 1980 to 16.6 billion pounds in MY 1983) numerous alternatives to stem production were suggested and three were implemented before a reasonable and workable one was found.

The first action was to eliminated the semi-annual adjustment due in the support price on April 1, 1981. Next the 1981 Farm Bill froze the support price at $13.10 for marketing year 1982. That law also established pricing criteria for marketing years 1983, 1984 and 1985, thus giving the dairy farmer something to plan against. However, the Omnibus Budget Reconciliation Act of 1982 changed the dairy program. The 1982 Act continued to hold $13.10 as the support level but provided for two $.50 assessments, the second of which was refundable.

The uncertainty from continually changing programs, the discontent with a $.50 assessment that they could do nothing about, and the delays in program implementation caused by court challenges all resulted in continued milk production expansion because dairy farmers feared the future.

Finally on November 30, 1983, President Reagan signed into law a program devised here in the Congress which has worked.

Yes, the Milk Diversion Program has been a success. However, prior to looking at specifics, a couple of observations are in order. For the dairy industry, a diversion program was an entirely new experience, unlike grain producers who have had decades of experience with such supply management programs.

To further complicate matters, dairy farmers had a very short period in which to learn about the program and to decide whether or not to participate. On November 30, 1983 the Milk Diversion Program was signed into law with an effective date of January 1, 1984. Contracting had to be completed by January 31, 1984. In less than two months time, a dairy farmer had to analyze the program as enacted and compare the options if he participated with those of nonparticipation. If the farmer decided to participate, he had to gather sufficient data and documents to fulfill the requirements of participation, file the required information and sign a contract at his local Agricultural Stabilization and Conservation Service (ASCS) county office. All this had to be done in less than two months time. The program actually began January 1, 1984, one month before the contracts had to be signed.

Despite the dairy industry's lack of experience with diversion programs and despite the abbreviated sign-up period, about one in every five commercial dairy farms participated (38,000) in the program. Table 3 illustrates that in 1984, the first 12 months of the diversion program, provided a reversal in the continual trend of production increases. For 1984, milk production dropped 4.6 billion pounds versus a 4.2 billion pound increase the previous year.

TABLE 3.—MILK PRODUCTION 1980–84

[In billions of pounds]

Year	Milk	Quantity change
1980	128.4	5.0
1981	132.8	4.4
1982	135.5	2.7
1983	139.7	4.2
1984	[1] 135.1	−4.6

[1] Adjusted for leap year.

Due to the significant decline in production and increase in consumption, CCC purchase levels of 1984 were almost half of those of the previous year (Table 4).

TABLE 4.—NET CCC PURCHASES 1980–84

[In millions of pounds]

Year	Milk equivalents	Quantity change
1980	8,799.9	6,680.8
1981	12,860.9	4,061.0
1982	14,281.3	1,420.4
1983	16,813.7	2,532.4
1984	8,645.2	−8,168.5

Government purchases for 1984 were 8.6 billion pounds milk equivalent. This was 8.2 billion pounds less than 1983 purchases. Table 5 then indicates the resultant reduction of government expenditures.

TABLE 5.—NET EXPENDITURES ON DAIRY PRICE SUPPORT AND RELATED PROGRAMS

[In millions of dollars]

	Net expenditures	Change
Marketing year:		
1979–80	1,279.8	1,029.2
1980–81	1,974.8	695.0
1981–82	2,239.2	264.4
1982–83	2,600.4	361.2
1983–84	1,597.5	−1,002.9

For the 1983–84 marketing year, net government expenditures were reduced over one billion dollars (down almost 40 percent). An even greater savings would have been indicated if the data were available on a calendar year basis, thereby separating program and nonprogram periods.

Since the Milk Diversion Program is not scheduled to end until March 31, 1985, and final reports of participation are not required until June 30, only preliminary data are available to analyze the effects of the program.

The U.S. Department of Agriculture has published certain data for the first nine months (January-September, 1984) of the program. In total, the study included monthly milk marketing records for over 100,000 farms representing 60 percent of the total U.S. milk marketings. Data collected were then used to compare participants and nonparticipants and showed the following results. During the first nine months of the Milk Diversion Program, which began in January 1984, participants decreased marketings 25.5 percent relative to the base period. Compared to their marketings in 1983, participants decreased marketings by 22.2 percent.

In comparison of 1984-to-1983 marketings by nonparticipants, they increased 2.2 percent. Among the nonparticipants, there were 44.9 percent who decreased marketings which represented twice as many farms as the group of participants. The nonparticipants who decreased marketings did so at only about one half the rate of participants. Those nonparticipants who increased marketings did so at the rate of about 13 percent. Available data indicate that all nonparticipants in total increased marketings about 6.8 percent above a 1982 base.

Besides the Milk Diversion Program, the 1983 Dairy and Tobacco Adjustment Act authorized a $.15 per hundredweight assessment on milk marketings to finance a dairy product research and promotion program. The majority of this money has been allocated for dairy product promotion with a portion being spent on funding research and educational programs. Promotional activities, funded by collections, first began in September 1984. As these activities are only in their sixth month, only very preliminary data are available. However, we are hopeful that the activities of the National Dairy Board will, in fact, increase consumer awareness of the nutritional benefits of dairy products and further stimulate consumer demand. Past research on the impacts of dairy product promotional campaigns give us reason to be very optimistic about the results.

DAIRY SUPPORT PROGRAM FOR THE 1985 FARM BILL AND BEYOND

The Milk Diversion Program and the Avertising and Promotion Program authorized by the Dairy and Tobacco Adjustment Act of 1983 have gone a long way towards balancing the supply and demand situation for milk and dairy products. CCC purchases have been cut in half, the cost of the purchase program has been reduced by more than one billion dollars and the Milk Diversion Program has been financed and paid for by dairy farmers—it has been a successful self-help program.

However, the supply-demand imbalance is not totally solved. We still have more resources in the production of milk today than are needed to meet the demand for milk and dairy products. Our projections for supply and utilization for the current year indicate that net CCC purchases may still reach about eight billion pounds milk equivalent. (Appendix 1)

The Federation fully recognizes that further steps must be taken to bring supply and demand into closer balance. It is the basic goal of the Federation to bring about this necessary reduction in the surplus without destroying the milk industry in the process.

It was with this goal in mind that the Board of Directors and the voting delegates of the National Producers Federation have met during the past year to develop a program that will bring supply and demand into balance and keep it there while giving farmers the assurances and stability they need to continue to produce an adequate supply of milk for consumers at reasonable prices. At our annual meeting in November last year, our voting delegates approved the four program objectives to be used by the Federation in the development of the program for the 1985 Farm Bill:

1. To assure an adequate supply of pure and wholesome milk for domestic consumption.
2. To stabilize prices but only to the degree that in the long run market prices are allowed to adjust the resources in milk production to the demand for milk and dairy products.
3. To encourage market growth and the consumption of milk and dairy products.
4. To provide for standby authority for the use of an incentive/penalty program when substantial adjustments in supplies are necessary.

The National Milk Producers Federation recommends that the 1985 Farm Bill provide authority for a dairy program with the following elements:

PURCHASE PROGRAM

It is vital that a purchase program continue to be the method used to support the price of milk. The Agricultural Act of 1949 authorized that the price of milk be supported through the purchases of milk and milk products. This system has worked well and has provided stability in the market prices of milk and dairy products that could not be attained by any other method. Product removal from the market during the flush production months has prevented "fire sale" prices and maintained markets for producers. During most years of program operation, there have been adequate supplies available in CCC storage to moderate increases in milk prices during the short season. Thus, false signals of surplus or shortages have not been transmitted to the farmer through market prices and unneeded resources have not left nor been drawn into milk production because of seasonal price swings.

The purchase program has also been more reflective of supply and demand conditions and has sent market signals to the farmer more quickly than any other program could have done. A target price-deficiency payment program such as used in many of the row crop commodities would not work well for dairy products. A target price-deficiency payment does not give a true signal to producers. Such a program guarantees a minimum price to producers whether or not market conditions justify such a price. The Dairy Price Support Program as it has operated with a purchase program assures processers of manufactured products an adequate return with which they may pay dairy farmers the support price for milk. If a manufactured product's processer finds that he need not pay the support level to attain an adequate supply for his plant, he is not required by law to do so. This allows the true supply-demand signal to be transmitted to dairy farmers almost immediately. Reviewing U.S. manufacturing milk prices compared to the support price in recent years, we can see that as the supply of milk began exceeding the demand the farm milk prices fell below the support level and has stayed below the support level from April, 1980 until last fall. Had a target price-deficiency payment been in effect during this period, dairy farmers would have continued to produce at the support price level knowing that any deficiency in market price below the support level would be made up by a direct payment.

The purchase program has also provided valuable dairy products for the use of government in many of the nutrition and needy assistance programs. The School Lunch, Elderly Feeding and WIC programs have all benefited from dairy products acquired under the support program. Were these commodities not made available directly to these individuals, some other method of government assistance would have to be devised to provide the same nutrition and assistance.

We fully support the continuation of a purchase program which buys butter, nonfat dry milk and cheese at prices which allow manufacturing plants of average efficiency to pay at least the support price to dairy farmers.

DAIRY PRICING INDEX

Permanent legislation relies upon parity as the standard by which the support price of milk should be established. The Federation supports continued use of an indexing concept for establishing the support level of milk to assure an adequate supply. However, we believe that the current parity formula may have developed some undesirable aspects which will make it less useful as a price setter in the future. The 1910–14 base period is antiquated and many problems are created by continuing to relate back to a base period which bears little resemblance to the present. The method of calculating the adjusted base price tends to unduly increase the parity price for milk because milk prices have increased more rapidly than the index of prices received for all farm products. This fact, along with the increased productivity on dairy farms, appears to have shifted the applicable range at which parity could be applied from 75 to 90 percent to some much lower range.

Another problem with the continued use of parity is that milk is one of the few commodities and is the only major commodity which still uses parity as a basis for establishing prices. Thus, the consistency which was provided when parity was used to establish all product prices has been lost.

Recognizing these problems, the Board of Directors of the National Milk Producers Federation, directed the development of new dairy pricing index which could be included in the 1985 Farm Bill as a means of establishing a support price for milk. The Board of Directors felt that any formula should reflect the cost of producing milk, the economic conditions in the other segments of agriculture and the economic conditions in the general economy. Based on these guidelines, the Federation has developed a new dairy pricing index. A report on this index, along with the specifics of its operation is offered to the Committee as part of the hearing record.

The new Dairy Pricing Index relates the costs that dairy farmers face today with those in the three-year period, 1976–1978, which was a fairly balanced period for milk supply and demand. The index gives a weight of 80 percent to the cash expenses of dairy farmers. The weights given to the specific cash expense factors were derived from the "Cost of Production Study" published by the U.S. Department of Agriculture. There are sixteen individual factors in the formula which represent cash outlays. These include feed, farm services and cash rent, interest, farm wage rates, fuels and energy and tractor and self-propelled machinery. The factor feed carries the weight of 33 percent in the formula, but in terms of cash expenses, the feed factor represents 41.25 percent. By contrast, feed represents less than ten percent of the index we now use, hardly reflective of the actual cost of feed to a dairy farmer.

The heavier weight of feed also represents an opportunity cost to dairy farmers who can sell their homegrown feed commercially rather than feeding it to their livestock.

In addition, a factor representing prices received for meat animals is included in the formula and weighted at 10 percent to represent the dairy farmer's alternative of selling dairy animals for meat rather than keeping them for milk. Including these opportunity costs in the formula is consistent with the directive of our Board of Directors to tie milk prices to the conditions in the other sectors of agriculture.

The final ten percent in the formula is represented by the Consumer Price Index (CPI). Inclusion of this factor in the formula ties milk prices to what is happening in the general economy and reflects in the index the increases in cost that dairy farmers and their families face in their daily living.

The index generated by these 18 factors is then adjusted by a cost of production adjuster. An integral part of the formula, this adjuster reflects the changes in inputs needed to produce one hundred pounds of milk. The adjuster is tied to output per cow and reflects the changes in inputs needs to produce one hundred pounds of milk since the base period. The inclusion of this factor in the formula will keep the formula viable in reflecting accurately the changes in the cost of producing milk for many years to come.

The adjusted index is then multiplied times the base price of $8.33 to determine the support price for the coming marketing year. The base price of $8.33 is the average of milk prices during those months in the base period (1976–1978) when the Commodity Credit Corporation was in the market purchasing substantial quantities of dairy products.

SUPPLY-DEMAND ADJUSTER

Recognizing that no formula devised can adequately reflect all of the conditions which impact on the supply and demand for dairy products and recognizing that the factors in the formula are based on historical data and therefore, may not truly reflect the conditions which will exist in the future, the Federation has constructed a supply-demand adjuster to fine-tune the support price generated by the formula.

The supply-demand adjuster is a schedule of price increases and decreases which relate to expected net purchases by the Commodity Credit Corporation (CCC) of dairy products during the coming marketing year. The supply-demand adjuster is designed to result in CCC net purchases between three and five billion pounds, a level felt necessary to assure price stability and provide U.S.D.A. the commodities necessary to meet their program needs.

If the Secretary of Agriculture estimates that the support price generated by the dairy pricing index would call forth less than three billion pounds of milk, the supply-demand adjuster would require that the support price be increased to generate additional supplies. However, should the Secretary's estimate of CCC purchases be above five billion pounds milk equivalent, the supply-demand adjuster would require that the support price be decreased. In addition to the mandatory price increases and decreases provided at each level of surplus, there is discretion given to the Secretary to further increase the price signal being sent to dairy farmers. The supply-demand adjuster proposed is as follows:

SUPPLY-DEMAND ADJUSTER

CCC purchases (billions of pounds)	Mandatory price adjustment (percent)	Discretionary price adjustment (percent)
Less than 1	+7.8	Unlimited.
1 to 1.99	+5.2	Up to +7.8
2 to 2.99	+2.6	Up to +5.2
3 to 3.99	0	Up to +2.6
4 to 4.99	0	Down to −2.6
5 to 5.99	−2.6	Down to −5.2
6 to 6.99	−5.2	Down to −7.8
7 and over	−7.8	0

The above supply-demand adjuster at current milk price levels would provide for a maximum downward price adjustment of approximately $1 dollar per hundredweight.

INCENTIVE/PENALTY PROGRAM

The final provision of our program would be some type of incentive/penalty program that would be available for use when significant adjustment in supply is necessary.

We fully expect that the operation of the dairy pricing index and the supply-demand adjuster will keep relative balance in supply and demand most of the time. The adjustments provided in these prices are large enough and occur soon enough to send an early and definite signal to dairy farmers when they are producing too little or too much milk.

We are, however, in a period of rapidly advancing technology—in a period where rapid changes in exogenous factors can bring great volatility to the dairy industry. We are hearing more and more about scientific advancements such as bovine growth hormones or embryo transplants, which if they become common management practice among dairy farmers, could substantially increase our ability to produce milk in a very short period of time. Such advancements likely would occur more quickly than could be adequately reflected in the formula in time to bring about an orderly reduction of the resources in milk production.

Total reliance on price to make a massive adjustment in resources is not satisfactory. Such a method requires that the entire industry suffer under the burden of excessively low prices until our productive capacity is reduced down to demand levels. We believe that standby authority for some type of incentive/penalty program to bring about adjustments, such as the current milk diversion program has, would keep the industry healthier and therefore, the program would continue to meet its objective of assuring an adequate supply.

There are many forms that such an incentive/penalty program could take. The program might be voluntary or mandatory on every producer. It could provide payments to producers who reduce production or could involve penalties on producers who overproduce. It could be funded by a general assessment on all milk marketed or use only government funds. Perhaps government responsibility could be limited at some level, either in terms of dollars spent or billions of pounds purchased. There could be exemptions for farmers who raise and sell registered breeding stock and some provision could be made to protect the producers of other commodities. These are just some of the areas that have to be addressed and decided upon in the development of a program that will provide an industry consensus.

The Federation has been working diligently over the past months trying to gain a consensus on the final shape of such an incentive/penalty program. In addition, we will be meeting with representatives of the livestock industry who expressed concerns about the operation of the milk diversion plan presently in affect.

At this point, we do not have agreement to the specific details of an incentive/penalty program, however, I am happy to tell you that honest negotiations continue and the prospects for accommodating the various views and developing a consensus program are good. The alternative offered by the administration, which is in effect a non-program, has made each of us more willing to set aside our own parochial ambitions and desires in order to accommodate the dairy industry as a whole. The eleventh hour is drawing near and decisions will be made on program specifics. I ask your permission, Mr. Chairman, to bring the program to you when we have reached a consensus.

The type of incentive/penalty program we have in mind is not one that would become effective and place the industry in a restrictive straight jacket from now until eternity. What we have in mind is a program that will become effective when some extraordinary condition creates an extraordinary imbalance between supply and demand. The purpose of the program would be to return balance to the industry. Once balance was returned, the program would terminate. The value of such a program has been recognized not only by many in the dairy industry but also by independent experts in their analysis of dairy programs. In the previously noted Department of Agriculture study which was directed by the Agriculture Act of 1981, it was concluded that "Despite their disadvantages, supply controlled programs might possibly serve as temporary measures to bring production into line with use." (Page 86)

An incentive/penalty program applied for a temporary time would give us positive results in two fashions. First, those inefficient dairy farmers who are already suffering from low prices would be given the time and possibly the cash incentive to transfer their resources from the production of milk into the production of some other commodity where, hopefully, they would be more successful. Secondly, a percentage of the productive capacity would be diverted to some later period when it will be needed to meet future demand increases. This is certainly consistent with the language contained in the permanent authority for the program which requires the Secretary of Agriculture to "maintain productive capacity sufficient to meet anticipated future needs."

FEDERAL MILK MARKETING ORDER PROGRAM

The Federal Milk Marketing Order Program is authorized by the Agricultural Marketing Agreement Act of 1937 as amended. The program facilitates the orderly marketing of milk between producers and milk processors by establishing a structure that assures equitable treatment for the parties involved. This is accomplished by:

1. Providing that all milk entering the market be classified according to use.
2. Establishing minimum prices for the milk used in each classification.
3. Providing a means of equitably distributing the proceeds from the sale of all milk in the market among producers supplying that market.
4. Verifying the accuracy of reports of milk use and the accuracy of test and weights of all milk marketed.

Although the Milk Order Program is fifty years old, it has remained a viable and effective instrument which has assured a continuing supply of fluid milk at reasonable prices. The success of the program has not been left to chance but has been the result of continued attention of all parties involved to keep the program reflective of the current conditions surrounding the marketing of milk.

The Federation has reviewed the authorities provided in the Agricultural Marketing Agreement Act of 1937 as amended and recommends to you that you consider making the following amendments in those authorities:

PERMANENT EXTENSION OF AUTHORITIES TO PROVIDE FOR SEASONAL BASE EXCESS PLANS AND "LOUISVILLE" TAKE-OUT PAY-BACK PLANS WHICH ARE DESIGNED TO ENCOURAGE MORE EVEN PRODUCTION OF MILK DURING THE YEAR

The specific authority for seasonal base plans and seasonal pricing plans has been separately stated in the basic legislation since 1970. These programs have shown to be useful in evening out seasonal production patterns. Presently, eight markets use the "Louisville Plan" for paying producers. This plan operates by withholding certain monies from producers during the heavy flush producing months and returning those monies to producers during the tighter fall production months.

There are ten markets currently using seasonal base excess plans for paying producers. Producers delivering milk to these markets during the short production period establish a daily base of deliveries. Then during the flush production period, producers are paid a higher price for deliveries within their base and a lower excess price for deliveries in excess of their established base.

We would support making these provisions a permanent part of the authorizing legislation.

MARKETWIDE SERVICE PAYMENTS

We recommend the Agricultural Marketing Agreement Act of 1937 as follows:

> "(1) amending section 8c(5)(E) by inserting before the period at the end thereof a comma and the following: "from producers or associations of producers, and (iii) for payment from the total use value of milk under paragraph (A), before computing uniform prices under paragraph (B) and reflecting adjustments in payments as among handlers under paragraph (C), to cooperative marketing associations qualified as provided in paragraph (F) of this subsection and to other qualified marketing agencies for services of marketwide benefit including, but not limited to the following—
>
> > "(a) providing facilities to handle and dispose of milk supplies in excess of quantities needed by handlers and to furnish additional supplies of milk needed by handlers;
> >
> > "(b) handling of milk on specific days in excess of the quantities needed by handlers;
> >
> > "(c) transporting milk from one location to another for the purpose of fulfilling requirements for a higher class utilization or providing a market outlet at any class of utilization; and
> >
> > "(d) performing other marketwide services."

The present authority which calls for paying uniform blend prices to all producers which are subject only to location, butterfat and other adjustments does not cover the costs of marketing agencies servicing the fluid market. At the present time, the cost of performing certain marketwide services generally is born by the cooperative association performing those services and therefore, by just the members of those cooperatives. Non-members or members of cooperative associations not performing these services gain the advantage without participating in the cost of servicing and maintaining the market. In most cases, full service cooperatives have committed themselves to providing marketwide services and therefore, will be the primary benefactor of this amendment. However, other marketing agencies do perform services of benefit to all producers and therefore, would qualify for payment. Under the proposed amendment, authority would be provided to include provisions in orders for reimbursement for such marketwide services. Payments to these qualifying organizations would be deducted from funds due dairy farmers before computation of the uniform price for all milk marketed under the order. Thus, the cost of servicing the market would be borne by all dairy farmers whether or not the association they delivered milk to actually performed the services.

One of the primary marketwide services is providing seasonal balancing for the market. Because milk production is seasonal in nature, if we are to assure an adequate supply of milk for consumers during the low production period, there will be an excess in the flush production months. To stabilize this situation and to provide a market for this excess milk, it is necessary to have facilities available to process this milk into manufactured products. Such facilities are generally high cost operations since they operate on highly fluctuating volumes of milk. These plants operate at partial capacity much of the year, and many days of the year may receive no milk at all. The marketing agency assuming this burden provides a needed and irreplaceable service to the entire market, but the cost of the service falls generally to those marketing agencies which provide the service. To assure equity among all producers delivering to the market, some manner should be provided to equitably distribute the cost of these services. Again, I would like to reference the Department of Agriculture study directed by the Agricultural Act of 1981 which found, "Paying uniform blend prices to all producers subject to location differentials and certain other adjustments does not adequately reward producers for servicing the fluid market . . . Providing payments from pool revenues for bona fide marketwide services has some economic justification. . . ."

STATUS OF PRODUCER HANDLERS

Under Federal Milk Marketing Orders, producer handlers are dairy farmers who market milk of their own production directly to consumers. The Agricultural Market Agreement Act of 1937, as amended, provides for the regulation of producer handlers as any other handlers under the terms of Federal Milk Marketing Orders. Administratively, however, a determination has been made that producer handlers whose marketings are comprised solely of milk of their own production are not subject to the terms of a marketing order where one is in effect.

The past several general farm bills have included a brief statement of position by the Congress making it clear that the legal status of producer handlers of milk under Federal Milk Marketing Orders will be the same following the adoption of this legislation as it was prior to its consideration.

The provision makes no change in current law, however, it does make clear that no change is intended.

The Federation recommends that this provision be included in the new legislation.

DAIRY INDEMNITY PROGRAM

The Federation recommends that the provisions of the Dairy Indemnity Program be extended for a four year period.

The program authorizes payment to dairy farmers for the value of milk removed from the market due to the presence of residues of pesticides, toxic chemicals, or nuclear fallout if the residues are present through no fault on the part of the farmer.

Initially authorized in 1968, the program grew out of a situation in which dairy farmers were using pesticides for purposes and in a manner approved by the Federal government but were having their milk barred from the market due to residue. The discovery of the residue was largely the result of improved testing techniques.

Authority for payments in the event of nuclear fallout or toxic chemical residue was added in 1977. In the case of toxic chemical residue, the law specifically bars indemnity payments if the Secretary of Agriculture determines that the farmer has legal recourse against other parties available.

Outlays under the program have been small. During the past two years, average expenditures were $4.25 million, while average expenditures for the two years preceding that was only $28,500. These are not large amounts, but it has meant the difference between continuing in the dairy business and being forced out for producers caught in tragic situations. It does afford them a continuing source of income while the necessary steps to remove the residue problem are taken.

TRANSFER OF DAIRY PRODUCTS TO THE MILITARY AND VETERANS HOSPITALS

The Federation recommends a four year extension of the authority contained in Section 202 of the Agricultural Act of 1949. This authority has been used to make available additional quantities of dairy products for use in these government facilities. Such product use provides a beneficial use of available stocks of dairy products and helps to reduce the cost of overall government operations. The law does require that any products transferred be in addition to normal use levels so as to prevent interference by government with normal marketing operations. We would also urge that the Committee direct a more agressive attitude on the part of the government agencies involved toward the use of this authority and other existing programs for use of food stocks held by the Commodity Credit Corporation.

SUPPORT OF NUTRITION ASSISTANCE PROGRAMS AND PUBLIC LAW 480

As you consider the provisions of the 1985 farm bill, we wish to make a few comments regarding legislation and programs which complement specific commodity programs and thus contribute to the comprehensive and sound National food policy.

We must be ever mindful of those among us in our nation who are most vulnerable—the elderly, the young and the disadvantaged. It is essential that we maintain strong programs by providing adequate funds and commodity donations to help these special people. Food stamps, school lunches, the Women's, Infants and Children Supplemental Feeding program, Child Care, Summer Feeding, Elderly Nutrition and the Special Milk Programs have all served to raise the quality of life in our country. Commodity distribution programs which distribute products through schools and prisons and the Temporary Food Assistance Program which distributes food through food banks and soup kitchens are important companion programs to the dairy and other commodity support programs. We support all improvements to these commodity distribution programs including the continuation of the National Commodity Processing program. We support legislation introduced in the House and Senate to improve nutrition monitoring, with the provision that USDA be designated lead nutrition agency. This could be assured through legislative language as a part of this comprehensive farm bill.

Likewise, we must be ever mindful of those beyond our shores who are less fortunate and we must share our agricultural abundance through donation where needed. We support expansion of Public Law 480 provisions and permanent legislation making international commodities a bonus item as provided in Section 416 of the Agricultural Act of 1949.

IMPORT CONTROL

The Administration's policy as stated in S. 501, is to promote free and active world trade in agricultural goods and to reduce or eliminate U.S. restrictions on such commodities. Neither the Dairy Price Support Program nor the American dairy industry as we know it today, can exist under present conditions of world trade without effective and consistent import control.

Under existing law (Section 22 of the Agricultural Adjustment Act as amended), quotas are established on certain dairy products as a means of limiting imports when it is found that they are interfering with the operation of the Dairy Price Support Program. At the present time, dairy product imports are limited under Section 22 to a combined annual total of 2,234,270,000 pounds milk equivalent. Despite this limitation, imports in 1984 totaled 2,741,430,000 pounds milk equivalent according to the U.S. Department of Commerce.

Of the total cheese imports in 1983, 60.2 million pounds were non-quota type cheeses which are produced either in limited quantities in this country or not produced at all. We cannot quarrel with the import of these cheeses for they expand a variety of products available to the American consumer and likely increase consumer's taste for all milk and dairy products.

However, why should the American dairy farmer bear the cost of lost markets or have their domestic markets undermined by the mistakes of other countries. Most imports of dairy products into this country represent the lowest class of dairy products. If import restrictions were relaxed, this is the category that would increase.

These products, most of which enter this country highly subsidized, displace domestic products and erode from the bottom the pricing structure for all milk marketed.

The American dairy industry has no designs on the markets of other countries. Our efforts are directed at programs which will enable the American dairy farmer to produce an adequate supply of pure and wholesome milk for domestic consumption.

It is naive of the Administration to lump milk in with all the other commodities that must rely on export markets as well as the domestic market to dispose of their commodities. The American dairy farmer has realized early on that it cannot compete with the treasuries of other countries who are willing to subsidize the export of their commodities into world markets.

Opening the U.S. coastline to subsidized dairy imports to benefit the American consumer is a naive objective. It must be realized that those countries who subsidize the export of their products are not doing so to provide American consumers with low price products, but are doing so to minimize the cost of their own domestic programs. If heavily subsidized imports are allowed to enter this country unchecked, it will destroy the capacity of the domestic industry to supply domestic needs. Once the domestic productive resources are gone and this country is in need of dairy products, we will see the cheap subsidized dairy products disappear, for it will no longer be necessary to subsidize products to move them into this market.

We implore the Congress to reject any attempts by the administration to reduce the protection given dairy farmers and consumers under Section 22.

MILK PROTEIN IMPORTS

There is a need to curb the growing level of milk protein imports into this country. This includes products such as casein, mixtures of casein, lactalbumin and whey protein concentrates. Casein is the major category of these imports. Historically, casein has been used in such industrial applications as paints, adhesives, paper coatings and plastics. In recent years, however, these uses have declined as synthetic products have displaced casein.

As this has taken place, there has been a shift in the use of casein to food and animal feed production. In 1955 the U.S. Department of Agriculture estimated that less than two percent of the 77.5 million pounds of casein utilized in the United States during the year, went into food and animal feed products. A study by the U.S. Department of Agriculture concluded that in 1980 87 percent of the casein entering this country was used in food or animal feed products.

Casein is a pure milk protein. It has a wide range of uses in the production of such foods as ersatz dairy products, coffee whiteners, frozen desserts and whipped toppings, bakery products, breakfast foods, diet foods and in calf milk replacer and other animal feeds including pet feeds.

The 1980 U.S.D.A. study of casein identified the displacement by imports of casein and lactalbumin an equivalent of 333 million pounds of nonfat dry milk which ended up being purchased by the Commodity Credit Corporation in 1980. The cost of these imports to the Commodity Credit Corporation was more than $300 million dollars, which was more than 25 percent of the cost of the program that year. Although the case was presented to the International Trade Commission in 1981, it was their interpretation that the import of these products was not materially interfering with the operation of the Dairy Price Support Program. Imports of casein in 1980, the year of the study, totaled 150 million pounds. In 1984 casein imports had increased to over 190 million pounds.

We continue to be amazed by the incredible finding of the International Trade Commission as do many members of Congress. Each year since that decision, bills have been introduced both in the House and Senate in an attempt to stem the damage from the import of casein. Currently, Mr. Rose of North Carolina and Mr. Roth of Wisconsin, have introduced bills limiting the import of milk proteins to some historical level. We fully support the passage of such legislation.

ADMINISTRATION'S PROPOSAL—DAIRY PROGRAMS

The Dairy Price Support Program proposed by the Administration is in effect, a "non-program." Although certain dairy provisions continue through 1991, they are so ineffective as to not be a program at all. In the Administration's title-by-title cost estimates, outlays are shown for Fiscal Year 1987 and Fiscal Year 1988, but the Administration expects no outlays beyond that point. Their proposed price level, 75 percent of the preceding three year average market price, leaves dairy farmers completely vulnerable to price uncertainty. Allowing that much volatility in prices will discourage the continued investment in dairying which has provided an adequate supply of milk at reasonable cost to consumers. Again, I would like to quote from USDA's "Review of Existing and Alternative Federal Dairy Programs," the report commissioned by the 1981 Farm Bill. That report concluded that "An appropriate degree of milk price stabilization by government may actually lower average milk prices to consumers over the longrun." (Page 85) It would be a disaster for dairy farmers and consumers alike, if any program along the lines of that proposed by the Administration were allowed to replace some reasonable dairy program.

In addition, the Administration in its proposed legislation is calling for a study of Federal milk marketing orders. We do not need another study of the order program. In 1981, Congress directed the U.S. Department of Agriculture to study all dairy programs including the Federal Milk Order Program. That study was a thorough analysis of the impact of orders on producers, processors, distributors and consumers, and did make recommendations for changes, both regulatory and legislative, which would improve the operations of the orders. As I noted before, the USDA study supported the type of legislative changes that we are seeking in the 1985 farm bill which will allow the orders to more effectively distribute the cost of performing services of benefit to all producers in an order. There have been no significant changes in conditions, or situations, nor any major technical changes since the completion of that study which would warrant the time and expense involved in another study. Such efforts now should be directed to the implementation of those recommendations from USDA's study.

SUMMARY

The proposals outlined in this statement respond to existing needs and will develop the atmosphere within which a strong dairy industry will continue in the future:

The Dairy Price Support Program should be maintained as the essential policy element providing needed price assurance and stability. The structure of a dairy program should contain the following elements:

(1) A purchase program

(2) A dairy pricing index to establish support prices

(3) A supply-demand adjuster to adjust support prices relative to expected CCC net purchases

(4) A standby authority for an incentive/penalty program to be used when substantial adjustment in supplies is necessary.

The Federal Milk Order Program should be strengthened by making the authority for seasonal incentive plans permanent. Also, authorities should be provided in the authorizing legislation to allow for the payment for marketwide services from the pool before computation of blend prices.

The Dairy Indemnity Program should be continued. The program is a low cost, highly effective program which assists dairy farmers whose milk is barred from the market through no fault of their own.

The transfer of dairy products to military and veterans' administration hospitals should be continued to make effective use of dairy products available from CCC inventories.

Curbing the impact of milk protein products as required by existing laws will reduce government costs and permit more effective operation of support and marketing programs.

APPENDIX 1.—MILK SUPPLY AND UTILIZATION

[Pounds in billions]

	1982–83	1983–84	1984–85	1985–86 [4]
Production	138.8	136.8	136.1	137.7
Farm Use	2.4	3.5	3.1	2.3
Marketings	136.4	[3] 133.3	[3] 133.0	135.4
Beg. Com'l Stks	4.6	5.2	5.2	4.6
Imports	2.6	2.8	2.8	2.8
Total Com'l Sply	143.6	141.3	141.0	142.8
Com'l Use	121.8	125.7	128.5	130.4
End. Stks.	5.2	5.2	4.6	5.6
Total Utilz	127.0	130.9	133.1	136.0
CCC purchases	16.6	10.4	7.9	6.8

APPENDIX 1.—MILK SUPPLY AND UTILIZATION—Continued

[Pounds in billions]

	1982–83	1983–84	1984–85	1985–86 [4]
Purchase cost (millions)	$2,597	$1,768	$1,295	[1] $1,052
Administration (millions) [2]	$255	$346	$300	$200
Total expenditure (millions)	$2,852	$2,114	$1,595	$1,252

[1] See quarterly breakout.
[2] Administration, transportation, packaging, handling and storage.
[3] Assumes collection of $.50 on 99.5 percent of all milk marketed.
[4] Assumed support price of $11.60 to $11.86.

STATEMENT OF PETER W. CURRA, PRESIDENT, MAINE FARM BUREAU ASSOCIATION AND MEMBER, BOARD OF DIRECTORS, AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation is the nation's largest general farm organization with a membership exceeding three million families in 48 states and Puerto Rico. I am a dairy producer from Knox, Maine. I serve as President of the Maine Farm Bureau Association and as a member on the American Farm Bureau Federation Board of Directors. Farm Bureau appreciates the opportunity to appear before the Senate Agriculture Committee regarding our position on dairy provisions of the 1985 omnibus farm legislation that will replace the Agriculture and Food Act of 1981 when it expires this year.

The 1985 Farm Bill is a priority issue for Farm Bureau. Our farmer and rancher members produce virtually every type of commodity grown on a commercial basis in this country; those directly affected by farm programs and those that do not come under authority of this legislation.

Farm Bureau dairy producers have been active in developing our dairy position, and the policies adopted at our 66th Annual Meeting in January are a result of extensive deliberation at the county, state and national levels of our organization. Our policies on dairy programs are not decided exclusively by our dairy producers but fit a broader general framework on farm programs. The dairy industry does not exist in a vacuum and therefore must be considered within the context of its interaction with livestock and feed sectors. Our policies are developed with that broad viewpoint as a major consideration.

Farm Bureau policy as adopted by voting delegates states:

We support a farm program which will:

(1) Maximize long-term opportunities for profit in agriculture;

(2) Reduce existing incentives for overproduction at home and abroad;

(3) Ensure price competitiveness for U.S. farm products in world markets;

(4) Provide opportunities to reduce stocks through production adjustments and/or expanded demand;

(5) Assure consumers of adequate supplies of efficiently produced products they wish to consume;

(6) Cause a supply reduction program to be implemented when carryover exceeds workable levels;

(7) Provide target prices as an income supplement for farmers to help them make the adjustment to a market-responsive agriculture;

(8) Provide loan levels for all major export commodities to facilitate orderly marketing and price competitiveness. These levels should be related to a 3-5 year average domestic price. Loan levels should not provide incentives for production that exceeds demand in domestic and world markets. These levels should be adjusted annually by no more than 10 percent; and

(9) Recognize that all commodities are interrelated and any change in supply, demand or price of one affects the others.

Dairy producers currently face uncertain conditions in the industry. Market conditions and the dairy diversion program have contributed to reduce milk production from last year's levels, and dairy product sales are up. These circumstances are a welcome relief to dairy producers indicating that supply and demand may be in closer balance as we approach the 1986 marketing year. We do not project, however, that conditions will have improved enough to avoid the two support price reductions on March 31 and June 30, 1985 as authorized under current law.

We must be cautious in our outlook for the dairy industry. Some indicators are not consistent with a completely optimistic outlook for milk producers. Replacement heifers are at record levels. The milk-feed price ratio is more favorable than it was a year ago, and nearly one-fifth of the 1984 production decline can be attributed to a drop in output per cow. These conditions suggest that the production capacity of the dairy industry could easily expand under price signals that provide incentive to produce more milk.

Farm Bureau's proposal on revision of the dairy program under the 1985 Farm Bill would adjust the support price according to market signals derived from average price history and levels of government purchases. In this manner, market forces provide communication between producers and consumers while government programs give assistance for orderly marketing of dairy products.

We believe that changes in agricultural policy cannot be effective without a commitment to fiscal responsibility and reduced overall federal spending that will promote economic growth through lower interest rates, more favorable exchange rates and increased U.S. farm exports. Since this Committee hearing is concerned specifically with the dairy element of our legislative proposal, I would like to briefly present to you the dairy proposal that we will promote in the 1985 Farm Bill.

We recommend that the dairy purchase program be continued but we believe that the support rate should be set at 90 percent of the average of the previous three years' all milk price. The price support should be adjusted effective October 1 of each marketing year. This method of deriving an initial support rate incorporates the signals that are necessary to make the program more responsive to market conditions.

We further recommend that the support rate be adjusted if government purchases do not meet certain levels. We believe that the support price should be adjusted according to the following scale:

Net Government purchases (billion pounds)	Percent of support price	Project adjusted support price (as of March 1985)
Less than 3	104	$12.46
3.0 to 3.99	103	12.34
4.0 to 4.99	102	12.22
5.0 to 5.99	100	11.98
6.0 to 6.99	98	11.74
7.0 to 7.99	96	11.50

In addition, if purchases are projected to exceed 7.99 billion pounds during the marketing year, the Secretary would be given discretionary authority to adjust the support price by not more than 3 percent on April 1 of the marketing year and for any subsequent six month period that purchases are projected to exceed that level.

The combination of a market price used to set the support rate and a scale of adjustments to that support price will provide dairy producers a purchase program that responds to market signals. The additional 3 percent adjustment in price if purchases continue to exceed 8 billion pounds is a clear signal that government will not continue to offer increased incentives when market signals indicate that production should decrease. This program would not require adjustments to occur in an abrupt or disruptive manner, but producers would know that production and demand must be brought into balance.

We believe that these revisions to the dairy program would improve its operation for the benefit of producers and consumers alike while reducing federal expenditures. The discretion to alter the program according to political considerations is largely removed and replaced by a support price determined by indicators of market conditions. This will allow the program to flex with market forces over time, but avoid the drastic changes that can be disruptive to the industry.

Farm Bureau looks forward to working with the Senate Agriculture Committee in the months ahead to develop a sound 1985 Farm Bill. I appreciate the opportunity to present our views and would be glad to respond to any questions.

STATEMENT OF BUCKEY JONES, MEMBER, BOARD OF DIRECTORS, DAIRYMEN, INC.

I am Buckey Jones, a member of the Board of Directors of Dairymen, Incorporated from our Gulf Division. I own and operate a dairy farm in Smithdale, Mississippi.

Once again, I appreciate the opportunity to appear at this hearing and commend you in your efforts to assess the national dairy situation.

Mr. Chairman, Dairymen, Inc. is a milk marketing cooperative based in the southeastern United States. We have about 7,000 members and we just celebrated our 16th year of existence.

In the spring of 1983, I appeared before this Subcommittee and attempted to relay to you the current status of the dairy industry in the southeast. At that time, we strongly opposed the assessments which were in place and considered them unfair taxes on dairy farmers. We supported policies which we believed would help reduce surpluses while maintaining national dairy equity to producers and consumers. We opposed base or quota plans because the southeast was producing an ever smaller share of our country's milk supply despite an increasing population. (See Exhibit No. I)

Once again, Mr. Chairman, I am here to communicate that the positions we held over two years ago remain our policies today. The concerns and fears that I relayed to you have in many instances materialized over the past two years. I repeat my request from two years ago and ask this Committee to hear the plea of the southeastern dairy industry and take the appropriate steps to ensure that the new dairy program put in place this fall does recognize that there are regional differences in dairy farming. If you choose to continue to ignore reality and the inequities to both southeastern dairy farmers and southeastern milk consumers, all will continue to suffer the consequences of a continual decline in milk production and a higher cost to consumers for fluid milk.

Mr. Chairman, my testimony this morning has three objectives: First, to communicate the facts regarding milk production prior to the dairy diversion program and as it now exists under the diversion program. Second, I wish to relay to you the unique nature of the southeast dairy industry and the role marketing orders play in this region. And finally, our concerns and recommendations for a dairy program which we believe recognizes the national surplus problem while treating all milk producers and milk consumers fairly.

I wish to present several exhibits which I believe illustrate the facts regarding milk production in the southeast. Milk production in the southeast has declined dramatically over the past year. Exhibit II details the milk diversion program participation in the southeastern states. It identifies the number of participants; the base volume of participants; the volume cut and the volume cut as a percent of 1983 production. It also contrasts these results from the southeastern states with those of the entire United States. The bottom line, Mr. Chairman, is that southeastern states participated to cut back production 9% as compared with a national reduction of 5.5%. These regional figures can be further contrasted with diversions in the northeast at about 2%, and the midwest at about 3.4%.

My next exhibit, Exhibit III entitled "U.S. Milk Production", compares production figures in 1983, 1984, and those available for 1985 on a national basis. The average U.S. production decline in 1984 was 3.28%. This contrasts with Exhibit IV entitled "Milk Production in Nine Southeastern States" which shows an average decline of 7.52% and most recent data from January of 1985 saw a 8.52% decline from 1983. Clearly, the southeast has reduced marketings at substantially greater levels than the rest of the country despite the fact that the southeast's milk production is inadequate to meet the fluid milk needs of the region.

Mr. Chairman, the next two exhibits I wish to present further exemplify the shortage of milk in the southeast since the implementation of the Dairy and Tobacco Adjustment Act of 1983, and due to lower prices, rising costs, and weather conditions in some areas of the southeast. Exhibit V and VI "Producer Milk Pooled on Twelve Southeastern Federal Milk Marketing Orders" and "Percent Class I Utilization of Producer Milk Pooled on Twelve Southeastern Federal Milk Marketing Orders" shows major drops in producer milk pooled with increasing Class I sales. The percentage of producer milk allocated to Class I under the twelve Federal Orders has increased substantially. In June 1984, the increase was 12.6 percentage points over the previous year. Data for January 1985 show a 9.57% drop in producer milk pooled from 1983. Class I utilization was 9.6 percentage points above January 1983.

The effect of these radical declines in production and continuing increases in milk going to Class I use is a tremendous regional dislocation of milk in the southeast. Exhibit VII "Bulk Receipts From Other Order Plants Twelve Southeastern Federal Orders" quantifies the amount of milk movement in 1983, 1984 and the percentage change 1983 to 1984. The amount of milk moved in the southeast hit a peak in November of 1984 with a 353.62% increase in milk movement from other Federal Orders both within and outside the southeast.

Some have lauded the dairy paid diversion program as having been a great success due to reduced government costs and declines in CCC purchases. The facts and figures I have testified to today only strengthen the arguments which I presented you two years ago—such programs seriously worsen the milk shortage problem within the southeast. A program which cuts production most significantly in areas which are in a deficit position cannot be viewed as completely successful. Rather it reinforces the inequity of such plans.

I would now like to address our current Federal Milk Marketing Order Program. The position that the Federal Order System was designed to obtain a supply of milk for fluid use is clearly stated by the Agriculture Marketing Service, United States Department of Agriculture, in their brochure "Questions and Answers on Federal Milk Marketing Orders". The 1976 version states, "Federal Orders are primarily instruments for stabilizing market conditions for fluid milk and for this reason they apply to milk which is produced under sanitary inspection for sale in fluid form." Thus, an adequate supply for fluid use is clearly the objective of the Federal Order System.

The Agricultural Adjustment Act of 1949, which set in place the Price Support Program, was designed to maintain an adequate supply of milk to meet current needs and to maintain productive capacity to meet future needs for all uses. However, these two programs have been ineffectively administered and thereby have permitted shortages of milk production in the southeast. If these programs continue to operate in a fashion which ignores the needs of the southeast and only recognize a national surplus, equity will not be restored. This inequitable implementation of the Price Support Program and Federal Order System in conjunction with the Dairy and Tobacco Adjustment Act of 1983 has failed to attract the necessary supply of milk for fluid use in the southeast. The Federal Order System and the Price Support Program must work independently, not as one program. Properly used, these two programs, legislated by Congress for different purposes, can deal with the national problem of overproduction and at the same time assure adequate local supplies of fluid milk. One major problem is the Federal Order Class I differentials and location differentials which do not adequately reflect the cost of transferring milk from surplus areas to deficit areas. If these inequities in the Federal Order System are not changed, in the long run, significantly higher prices will be needed to generate the necessary supplies for the southeast. On a temporary basis, the Agriculture Marketing Service did grant a 20¢ increase in Class I differentials and provided a hauling credit for handlers in the southeast. The amendments ended in February of this year. Another problem is that Class I prices should not move from month to month on the basis of changes in the price of manufacturing grade milk in Minnesota-Wisconsin.

We have two good programs that—properly operated and coordinated—can adequately and effectively meet the needs of the industry. The Price Support Program can be used to provide a basic safety net for all milk. The Federal Order Program can be used to deal with regional and local differences so that milk is priced to attract an adequate supply for fluid use. The programs need to be so administered.

Finally, I would like to briefly outline Dairymen's position on Price Supports and the 1985 Farm Bill.

The milk support price program worked well in the early years. However, in recent years, the support program has become *the Market* rather than *the Support.*

The current Farm Bill will expire in 1985 and many concepts for a new support program are being offered. Dairymen's concept of future milk price supports was approved by the Dairymen Board of Directors in March of 1984. This program is as follows:

1. The basic support price mover should be dairy specific. Milk prices have been based on a general farm parity formula. The program needs a price mover that relates more specifically to conditions that directly influence milk production.

2. The program should be market oriented with a safety net and include a trigger mechanism based on Government purchases. The Price Support Program must recognize and adjust to the market for dairy products. A program that allows production to increase at a faster rate that the market is no longer acceptable. The Price Support Program should provide a safety net to prevent such low prices that would cause long-term damage to the industry.

3. The price support should recognize changes in productivity which could be measured by proxy such as production per cow.

4. The price support should use only price to control supply with no national quotas, diversion payments and no assessments.

Diversion payments and assessments have been used recently to deal with the large surplus of milk production. In the interest of dairy industry and the public, only price should be used to balance supplies with demand.

5. The price support program should allow some discretion on the part of the Secretary of Agriculture. The development of a formula that results in exactly the correct price adjustments is virtually impossible. Allowing the Secretary of Agriculture some discretion makes a more workable program.

We also recommend an uncomplicated support program. It must be simply enough to be understood by those directly affected and by those who do not work with the program on a regular basis. It should be easy and inexpensive to administer. We believe our concept meets these criteria.

And too, the support program must maintain effective import controls to keep the United States from becoming the price supporter and dumping ground for the dairy production of the entire world.

One final point. Dairying is an integral party of the total U.S. Agricultural Industry, recent experience shows that dairy farmers cannot do well very long when the rest of agriculture is depressed. Therefore, we have a vested interest in seeing that all U.S. agriculture does well.

The 1985 Farm Bill will most likely be a comprehensive package. We need to support basic legislation for agriculture. Important issues include trade expansion and reasonable trade policies that reflect the realities of today's world trade.

We strongly support the implementation of the Section 416 program in wheat and dairy products, as well as the expanded program for ultra-high temperature milk. Through programs such as these, the bounty of the U.S. dairy farmer can make substantial progress in aiding developing countries. Agriculture is still our largest industry and it is our best candidate to reduce our international trade deficit.

If agricultural exports cannot be expanded to the point that farming shares in the prosperity of this country, then we need to look hard and seriously to a program that will adjust farm output to our domestic markets. Otherwise, a depressed agriculture will lead this country into more serious economic problems.

[Exhibit I]

MILK PRODUCTION IN THE SOUTHEASTERN UNITED STATES AS A PERCENTAGE OF TOTAL MILK PRODUCTION

Month	1983	1984	Percent change from 1983 to 1984
January	10.70	10.26	−0.59
February	10.70	10.17	−2.11
March	10.80	10.20	−2.54
April	10.60	10.31	−2.46
May	10.30	9.80	−3.08
June	9.83	9.15	−4.41
July	9.61	9.22	−4.66
August	9.78	9.41	−3.99
September	9.98	9.71	−3.93
October	10.18	9.72	−4.23
November	10.30	9.17	−4.10
December	10.40	10.03	−3.33

Source: "Milk Production", Crop Reporting Board, SRS, Washington, DC.

[Exhibit II]

MILK DIVERSION PROGRAM, SOUTHEASTERN UNITED STATES

State	Number participants	Base volume of participants	Cut by participants		Cut as percent of 1983 production
			Volume	Percent of base	
Alabama	172	240.0	63.0	26.2	11.3
Florida	185	1,200.0	317.0	26.4	15.0

MILK DIVERSION PROGRAM, SOUTHEASTERN UNITED STATES—Continued

State	Number participants	Base volume of participants	Cut by participants		Cut as percent of 1983 production
			Volume	Percent of base	
Georgia	363	580.0	150.0	25.9	10.6
Kentucky	1,783	946.9	250.0	26.4	10.3
Louisiana	307	347.0	85.9	24.8	9.0
Mississippi	354	326.0	87.6	26.9	9.9
North Carolina	225	304.9	67.3	22.1	4.0
South Carolina	85	149.2	32.9	22.1	5.8
Tennessee	897	751.0	196.9	26.2	8.8
Virginia	423	476.6	101.1	21.2	4.8
Total	4,794	5,321.6	1,351.7	25.4	9.0
United States	37,530	37,500.0	7,400.0	22.8	5.5

Source: "Dairy Market News" (week of Feb. 6–10, 1984).

[Exhibit III]

U.S. MILK PRODUCTION

[In millions of pounds]

Month	1983	1984	Percent change from 1983	1985	Percent change from 1983
January	11,443	11,375	−0.59	11,209	−2.04
February	10,707	10,855	−2.11		
March	12,029	11,723	−2.54		
April	11,956	11,662	−2.46		
May	12,616	12,227	−3.08		
June	12,261	11,720	−4.41		
July	12,046	11,485	−4.66		
August	11,672	11,206	−3.99		
September	11,218	10,777	−3.93		
October	11,400	10,918	−4.23		
November	10,979	10,529	−4.10		
December	11,345	10,967	−3.33		

Source: "Milk Production," Crop Reporting Board, SRS, Washington, DC.

[Exhibit IV]

MILK PRODUCTION IN 9 SOUTHEASTERN STATES [1]

[In millions of pounds]

Month	1983	1984	Percent change from 1983	1985	Percent change from 1983
January	1,233	1,168	−5.27	1,128	−8.52
February	1,146	1,105	−6.90		
March	1,302	1,200	−7.83		
April	1,277	1,203	−5.79		
May	1,302	1,199	−7.91		
June	1,205	1,072	−11.04		
July	1,158	1,059	−8.55		
August	1,141	1,055	−7.54		
September	1,119	1,047	−6.43		

MILK PRODUCTION IN 9 SOUTHEASTERN STATES [1]—Continued

[In millions of pounds]

Month	1983	1984	Percent change from 1983	1985	Percent change from 1983
October	1,161	1,062	−8.53		
November	1,136	1,050	−7.57		
December	1,183	1,101	−6.93		

[1] Includes Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Tennessee, and Virginia.

Source: "Milk Production", Crop Reporting Board, SRS, Washington, DC.

[Exhibit V]

PRODUCER MILK POOLED ON 12 SOUTHEASTERN FEDERAL MILK MARKETING ORDERS

Month	1983	1984	Percent change from 1983	1985	Percent change from 1983
January	933,534,845	855,436,553	−8.37	844,172,646	−9.57
February	854,793,932	810,894,327	−8.41		
March	979,927,554	882,070,487	−9.99		
April	926,669,453	861,086,400	−7.08		
May	939,473,668	833,308,969	−11.30		
June	848,454,657	724,800,682	−14.57		
July	806,814,856	735,229,732	−8.87		
August	803,931,553	730,583,983	−9.12		
September	794,373,002	723,503,383	−8.92		
October	830,917,511	749,975,802	−9.74		
November	828,287,460	749,500,323	−9.51		
December	870,191,433	812,781,278	−6.60		

Note.—Southeastern Federal Orders: 1006 Upper Florida, 1007 Georgia, 1011 Tennessee Valley, 1012 Tampa Bay, 1013 Southeastern Florida, 1046 Lou-Lex-Evans, 1093 Alabama-W. Florida, 1094 New Orleans-Miss., 1096 Greater Louisiana, 1097 Memphis, 1098 Nashville, 1099 Paducah.

Source: Monthly statistics published by respective Market Administrator Offices.

[Exhibit VI]

PERCENT CLASS I UTILIZATION OF PRODUCER MILK POOLED ON 12 SOUTHEASTERN FEDERAL MILK MARKETING ORDERS

	1983	1984	Change from 1983	1985	Change from 1983
Month:					
January	72.9	78.6	+5.7	82.5	+9.6
February	72.7	77.5	+4.8		
March	69.7	78.3	+8.6		
April	69.9	72.9	+3.0		
May	67.1	78.1	+11.0		
June	69.7	82.3	+12.6		
July	73.4	80.7	+7.3		
August	78.0	85.8	+7.8		
September	83.4	84.3	+0.9		
October	79.3	88.0	+8.7		
November	77.3	85.9	+8.6		
December	75.7	78.1	+2.4		

Note.—Southeastern Federal Orders: 1006 Upper Florida, 1007 Georgia, 1011 Tennessee Valley, 1012 Tampa Bay, 1013 Southeastern Florida, 1046 Lou-Lex-Evans, 1093 Alabama-W. Florida, 1094 New Orleans-Miss., 1096 Greater Louisiana, 1097 Memphis, 1098 Nashville, and 1099 Paducah.

Source: Monthly statistics published by respective Market Administrator Offices.

[Exhibit VII]

BULK RECEIPTS FROM OTHER ORDER PLANTS, 12 SOUTHEASTERN FEDERAL ORDERS

[Excludes requested Cl. II/III]

	Total pounds 1983	Total pounds 1994	Pounds change 1983 to 1984	Percent change 1983 to 1984
January	8,713,904	15,772,038	7,058,134	81.00
February	7,125,797	13,801,766	6,675,969	93.69
March	8,635,468	10,198,193	1,562,725	18.10
April	9,362,361	11,905,584	2,543,223	27.16
May	10,565,540	12,988,242	2,422,702	22.93
June	12,889,468	25,053,374	12,163,906	94.37
July	20,836,065	40,598,634	19,762,569	94.85
August	29,043,899	44,377,964	15,334,065	52.80
September	32,178,191	58,893,851	26,715,660	83.02
October	20,039,891	65,419,848	45,379,957	226.45
November	13,048,970	59,192,348	46,143,378	353.62
December	13,170,268	41,756,838	28,586,570	217.05
Total	185,609,822	399,958,680	214,348,858	115.48

Note.—Southeastern Federal Orders: 1006 Upper Florida, 1007 Georgia, 1011 Tennessee Valley, 1012 Tampa Bay, 1013 Southeastern Florida, 1046 Louisville-Lexington-Evansville, 1093 Alabama-West Florida, 1094 New Orleans-Mississippi, 1096 Greater Louisiana, 1097 Memphis, 1098 Nashville, 1099 Paducah.

Source: Market Administrators of respective Orders.

STATEMENT OF E.L. BUCKNER, REPRESENTING THE ALABAMA FARM BUREAU, DAIRY DIVISION

Mr. Chairman, I am E. L. Buckner, representing the Dairy Division of the Alabama Farm Bureau Federation. Since 1952 I have owned and operated a dairy farm near Oneonta, Alabama. I currently milk 150 cows. I have been active in dairy and farm organizations in Alabama for many years. I have served as a county Farm Bureau president, served in many capacities in dairy cooperatives, including director and president. Currently, I am a director of the Alabama Farm Bureau Federation and chairman of the National Affairs Committee of the Dairy Division.

Mr. Chairman, although the dairy industry continues to have its problems, the price support and Federal milk order regulatory programs are good and need to be retained. However, improvements need to be made in these programs to help solve national and regional dairy problems. These needed program changes are:

1. Permit the support price to be adjusted based on a supply-demand adjuster.
2. By mandate of law, recognize regional supply and demand differences and permit the Federal milk order system to operate to reflect the regional differences.

Support price reductions and the diversion program in 1984 reduced national milk production and the national surplus. Surpluses actually exist in relatively few states. However, it is difficult to predict what the milk production response will be after the termination of the diversion program in the various regions at the end of March 1985. Many believe milk supplies will be faced with growing surpluses. The USDA has estimated that 1985 production will be as much as two percent higher than 1984 production.

I believe the main reason for overproduction of milk in the United States today and for the past several years is support prices that have been set at levels high enough to stimulate overproduction of milk for manufacturing use. Milk production needs to be reduced. So long as excessive supplies and excessive Commodity Credit Corporation purchases exist, support prices should continue to be lowered over a period of time until supply and demand are brought into a reasonable balance. Support prices should be adjusted based on a trigger mechanism determined by supply and demand levels as reflected by Commodity Credit Corporation purchases of supported products. Price signals in the marketplace should come from the commercial marketplace and not from a government-set support price. Support prices should serve only as "safety-net" prices. Since the present dairy surplus situation developed over a period of years, we cannot expect to have an immediate cure. As stated above, support prices should be reduced over a period of time. The time period should be long enough to permit farmers to make production adjustments that will not result in long term harm to this vital agricultural industry.

Regional differences in economic factors affecting milk supplies and milk demand are significant and should be recognized in the Federal milk order program. The recent market situation that has developed in the Southeastern markets is an excellent example of regional differences that need to be resolved to the benefit of milk producers, cooperatives, processor-handlers, and the consuming public.

In administering Federal milk orders, the Secretary of Agriculture is responsible by law to consider "economic conditions which affect supply and demand for milk . . . fix prices as he finds will reflect such factors and insure a sufficient quantity of pure and wholesome milk and be in the public interest. To establish and maintain such orderly marketing conditions . . . as will provide in the interests of producers and consumers, an orderly flow of the supply thereof to market . . . to avoid unreasonable fluctuations in supplies and prices." (Federal *Marketing Programs in Agriculture*, The Interstate, 1983).

Under the Federal milk order program, the historical philosophy of establishing Class I prices paid to producers has been to set prices in local markets that will assure an adequate supply of whole milk at reasonable prices in each market. In the Southeast the Federal order Class I prices are not achieving that goal. The Class I differentials are inadequate and should be increased or the formulas revised.

Price support cuts, the 50-cent (and $1.00) government assessments on producer marketings and the milk diversion program, coupled with higher production costs, have resulted in reducing milk production in the Southeastern supply areas and created costly supply acquisition situations. Milk supply within an 11-market area in the Southeast declined about ten percent between 1983 and 1984. To acquire adequate supplies during recent milk shortage months, handlers (largely producer cooperatives who desired to serve their markets) have been purchasing large quantities of supplementary milk from distant areas such as Ohio, Michigan, Wisconsin, and Maryland. In these more distant areas, usually Federal order markets, local prices have been high enough to stimulate abundant milk production. However, to acquire the milk and bring it to Southeastern markets, premium prices have been paid to bid the milk away from local use, which was frequently used in manufactured milk products to be sold to the Commodity Credit Corporation. The prices paid for the supplemental milk were the Federal order Class I price, plus premiums to bid the milk away from its existing markets. Premiums paid for these surplus supplies have been reported to be usually over $2.00 per hundred weight.

In addition, transportation costs must be paid to move the milk into Southern markets. These costs are about 35 cents to transport 100 pounds of milk 100 miles and over double the transportation differential in Federal order markets. Thus, the total cost of purchasing and transporting this supplemental milk into markets in the mid-South (Atlanta or Montgomery) has been as much as $18.00 to $19.00 per hundred pounds and was as much as $21.76 in Miami, Florida. The cost of importing supplementary supplies was more than $4.50 per hundred pounds above Federal order Class I prices in the mid-South and from $3.21 to $4.00 over the announced Class I prices in the Atlanta and Montgomery markets. The attached tables (pages 6 and 7) show comparisons between cost of imported milk suppliers and the announced Class I price and additional cost to local producers and consumers from dependence on imported milk suppliers.

The inadequacy of Federal order prices in the region has already been acknowledged by the Dairy Division of the USDA with the issuance of an emergency 20 cents increase in Class I differentials in 11 Southeastern Federal order markets. The emergency period extended from September 1984 through February 1985. Ironically, an allowance for hauling credits to be paid to those who had to acquire more distant supplies was expected to essentially exhaust the price gain from Class I differential improvement. In the more deficit markets, such as the Florida orders, where the greatest price relief was needed, the hauling credits paid for bringing in supplemental milk exceeded the 20 cents differential gain in some months and producers supplying those markets actually experienced a price differential decline! Those who gained from such patchwork or band-aid programs were milk haulers and the more distant suppliers. Those who lost were the historical milk producers, supplying the markets, their marketing organizations, and milk consumers in the region.

In conclusion, Southeastern milk producers, regardless of the market location or affiliations, recognize the need for Class I price adjustments and alignment throughout our region. Widespread producer effort developed in 1984 to form a milk pricing federation within the Southeast. This federation, called the Sunbelt Dairy Federation, has the sole purpose of improving milk prices paid producers in the Southeast.

The price improvements desired basically reflect the cost of transporting milk to Southeastern markets from alternative supply areas.

If Class I price differentials in Southeastern Federal order markets were adjusted to reflect current transportation costs, the need for a producer federation would be reduced or eliminated and production in historical supply areas would be strengthened. Consumers would benefit through relatively lower retail prices and milk quality improvement than if the markets were substantially dependent on distant supply sources.

We are requesting an appeal for a permanent solution under the law in the 1985 act which reflects supply and demand in the market.

TABLE I.—COST PER CWT FOR IMPORTED MILK COMPARED TO LOCAL CLASS I PRICES IN SELECTED SOUTHEASTERN MARKETS

Marketing area	Delivered cost of imported milk	Announced effective October 1, class I price	Additional cost to consumers and producers	
			Per Cwt	Per gallon
Louisville, KY	18.08	14.90	3.18	27
Nashville, TN	18.63	15.10	3.53	30
Huntsville, AL	18.96	15.25	3.71	33
Birmingham, AL	19.22	15.45	3.77	33
Montgomery, AL	19.60	15.60	4.00	35
Mobile, AL	20.18	15.75	4.43	38
Jackson, MS	19.50	16.32	3.18	27
Atlanta, GA	19.46	16.25	3.21	28
New Orleans, LA	19.98	16.70	3.28	28
Orlando, FL	20.97	17.40	3.57	31
Miami, FL	21.76	17.60	4.16	36

TABLE II.—COMPARISON OF CLASS I DIFFERENTIALS TO THE CURRENT COST OF TRANSPORTING MILK TO SELECTED SOUTHEASTERN MARKETS

	Current differential	Estimated current transportation cost [1]	Class I differential deficiency
Marketing area:			
Louisville, KY	1.10	2.12	−.42
Nashville, TN	1.85	2.67	−.82
Huntsville, AL	2.10	3.00	−.90
Birmingham, AL	2.30	3.26	−.96
Montgomery, AL	2.45	3.64	−1.19
Mobile, AL	2.67	4.22	−1.55
Jackson, MS	2.45	3.54	−1.09
Atlanta, GA	2.30	3.50	−1.20
New Orleans, LA	2.85	4.02	−1.17
Orlando, FL	2.95	5.01	−2.06
Miami, FL	3.15	5.80	−2.65

[1] Estimated current transportation cost from Chicago supply area calculated using $1.60 per loaded mile based on a 45,000 pound load delivered to the selected markets.

STATEMENT OF HOWARD M. DEAN, PRESIDENT, DEAN FOODS CO., FRANKLIN PARK, IL

I am Howard M. Dean, President of Dean Foods Company of Franklin Park, Illinois. Dean Foods is a diversified company specializing in the manufacture and marketing of dairy foods and specialty food products. Dean's dairy products, fluid milk, ice cream and natural cheeses account for 75 percent of the company's $900 million in sales. Dean Foods employs over 4,500 people in 15 states. Over 23 separate dairy product lines are distributed nationwide under our name as well as other branded and unbranded labels.

I am also Chairman of the Dairy Policy Committee of the Milk Industry Foundation, which is an ad hoc committee of approximately 40 food companies who process fluid milk and have a vital stake in the dairy program and agricultural policy. The companies on this Committee represent every region of the country and range in size from large national chain stores to small independent dairy processing companies. All of these companies buy, process and market fluid milk and dairy products and are directly affected by dairy policy. Our Dairy Policy Committee has formulated some guidelines and specific objectives that we think should be included in the 1985 Farm Bill. We seek a dairy program that discourages a build-up in government stocks, one that prevents government giveaways from interfering with commercial sales and one that does not distort the market with diversion programs, production quotas or other similar supply control programs. Mr. Tipton, who is seated next to me, is the Executive Vice President of the Milk Industry Foundation, and will elaborate in some detail on the specifics of our position.

I would like to give you a business perspective of the dairy program and the impact of that program on our company.

We at Dean Foods have a direct interest in dairy price support legislation. Every 10 cent increase in the price support for milk costs Dean Foods $3.2 million on an annual basis. Dean Foods manufactures and markets a full line of fresh products including homogenized, lowfat and skim milk, cottage cheese, yogurt, half and half, buttermilk, chocolate milk, and sour cream. We also produce and distribute packaged ice cream and ice cream novelty items, natural cheeses and a number of other specialty dairy products. The main ingredient in all of these products is pure, wholesome and nutritious milk.

Some people have questioned whether reductions in the milk price support are passed on to the consumer. This is a very competitive industry. To be successful competitors, we must be *the* low cost producer of the best quality dairy products. We are constantly re-evaluating our plant processes and equipment and reinvesting sufficient funds to achieve maximum efficiency. To meet the competition, we cannot afford *not* to pass on whatever cost savings we can get. The problem is, you cannot always see it, since in the case of many dairy products there are often other costs that increase and can offset the decrease in raw milk prices. At the retail level, for instance, raw milk accounts for about 55 percent of the fluid milk price, 55–60 percent of the butter price, and 40–45 percent of the cheddar cheese price. Of our total cost of a fluid milk product, raw milk will account for over 80% of that total cost. Processing, packaging, transportation, advertising and retailing costs and margins account for the balance of the retail price for these products.

Last year's 3.5 billion pound increase in commercial dairy product sales, however, is sound evidence that a lower support price means increased sales. Commercial dairy product sales increased by almost 3 percent in the last marketing year compared to the year earlier. That increase is to a very considerable degree a direct result of reduced and stable real milk prices. With no increase in the milk support price in the past three years, the market has responded in the way it should with increased sales.

It is significant to note that the retail price index for dairy products increased by only 1.6 percent per year since 1981, when the price support was last increased. For the five year period prior to that, when the milk support price was increased twice each year, the same retail price index increased by an average of 8.3 percent per year. For the past few years dairy products have been a good buy relative to other foods and last year we saw the first significant increase in sales in the past five years. It's clear that consumers will respond to price, so let's sell our way out of this problem, not buy our way out!

The benefits of a stable or reduced price support cannot be passed on to consumers when programs like the milk diversion program are in place. Late last summer and into the fall, for instance, there was a noticeable increase in dairy product prices despite the stable price support. The wholesale butter price increased from $1.46 per pound to $1.58 per pound last August and the price of cheese increased from $1.34 to $1.39 during the same time. Those increases were directly attributable to the paid milk diversion program, which caused a tremendous misallocation of milk supplies in several parts of the country. In the Southeast, where producer signup for the program was higher than in other parts of the country, handlers and processors were forced to pay tremendous premiums to bring milk in from as far away as Wisconsin and Minnesota to meet the demand for fluid milk. In Illinois, we were competing with these handlers and others for milk supplies and all of this resulted in unexpected and sudden higher dairy product prices for consumers. The sad irony of this is that while we were having difficulties finding milk for bottling purposes, butter powder and cheese plants in the Midwest were still selling "surplus" product to the government. In August 1984 the CCC purchased 1.6 million pounds of butter, 26.5 million pounds of cheese and 52.3 million pounds of nonfat dry milk at the same time that handlers had to pay premiums just to get fluid milk.

The milk diversion program did not significantly reduce milk production. It simply misallocated supplies by forcing farmers to dump their milk or feed it to farm animals to qualify for the diversion payment, which was based on reduced "marketings", not reduced production. In fiscal year 1984, milk fed to animals, dumped or used on the farm increased by 75 percent to 4.2 billion pounds compared to 2.4 billion pounds a year earlier. Milk production during the same period declined by only 1.2 percent or 1.6 billion pounds. Farmers did not significantly reduce production, they simply kept it off the market to qualify for the diversion payment.

I would like to finish my remarks by saying that we got into this surplus problem by putting the price support level too high. We can get out of the problem the same way. That is, reduce the price support to a level where production will be more nearly equal to demand. Let's not complicate things by imposing on the industry diversion programs, quotas, base plans, or any of the other complicated schemes being discussed. Last year's performance with the diversion program showed that it really did not significantly reduce production. Farmers, like consumers, are smart people. Farmers will reduce production if the support price is dropped and consumers will increase purchases. Let's leave the price and market forces free to dictate how much milk should be produced and how much consumers will buy.

Mr. Chairman, that concludes my remarks. I would like to thank you and the Committee for allowing me to appear before you today.

STATEMENT OF E. LINWOOD TIPTON, EXECUTIVE VICE PRESIDENT, MILK INDUSTRY FOUNDATION AND INTERNATIONAL ASSOCIATION OF ICE CREAM MANUFACTURERS

I am E. Linwood Tipton, Executive Vice President of the Milk Industry Foundation and the International Association of Ice Cream Manufacturers, on whose behalf I am appearing today.

The Milk Industry Foundation (MIF) is the national trade association for dairy product processors—ranging in size from single plant operations to multi-plant corporations with a myriad of interests. Member companies represent over 80 percent of the domestic processing industry. MIF member companies number nearly 300, and are located in all 50 states and over 20 foreign countries. U.S. members operate over 1,000 plants, which process 85 percent of domestically consumed fluid milk and fluid milk products.

The International Association of Ice Cream Manufacturers (IAICM) is the trade association for manufacturers and distributors of ice cream and other frozen dessert products. IAICM's 320 members operate over 1,110 plants and distribution centers nationwide, and manufacture approximately 85 percent of the ice cream consumed in the U.S.

The members of both associations use about two-thirds of all the milk used in the U.S. to process the milk and ice cream products they produce.

It is a pleasure for me to appear before this Committee today to testify about the dairy provisions of the 1985 Farm Bill.

MILK PRICE SUPPORT PROGRAM

Milk processors and ice cream manufacturers are most interested in maintaining a dairy support price program which will assure reasonable returns to dairy farmers and stabilize milk production. In the absence of a milk price support program, we fear prices would fluctuate widely and production would be erratic. This would not be in the interest of dairy farmers, processors or consumers.

As processors, we are also most interested that support prices be set at reasonable levels—levels which do not force the price of milk above other competing products, unnecessarily, and which provide adequate supplies while avoiding burdensome surpluses.

We are concerned about the tremendous growth in government purchases of dairy products in recent years and the high level of uncommitted CCC-owned inventories. We believe that government dairy policy should be structured to keep the quantity of dairy products purchased by the CCC at minimal levels. The quantities of surplus dairy products purchased by the CCC should be controlled through mandatory adjustment of the milk price support when government acquisitions reach a specified level.

Surpluses should not be allowed to reach levels which result in government giveaway programs that displace regular commercial sales of dairy products. Conversely, if government purchases fall below a prescribed minimum deemed necessary as a reserve to meet domestic and foreign food aid commitments, a mechanism should be available to increase the price support level. In light of imminent technological developments in the dairy sector and changing economic conditions, the key to the success of any dairy program will be flexibility.

We oppose any program or even "stand-by authority" for a milk support program based on quotas, production bases, diversion payments, producer assessments, or similar programs. Adjustments to production and consumption should be made by adjusting the price support level.

BRIEF HISTORY OF DAIRY PROGRAM

Before discussing our ideas for a workable solution to the current dairy surplus problem, I thought it might be helpful to review and highlight the recent history of the dairy price support program.

I think that most analysts and observers would agree that the dairy program is one of the more complicated and least understood of the major farm programs. In principle, however, the program is a simple one. That is, the price of milk to producers is supported by the federal government at levels sufficient to assure an adequate supply of pure and wholesome milk. This is accomplished by the secretary of agriculture announcing prices for butter, powder, and cheese at which the CCC stands ready to purchase unlimited quantities of these three products. These CCC purchase prices are set at a level permitting manufacturers to pay dairy farmers the support price and cover their cost of manufacturing.

For most of the 36 years that it has been in existence, the dairy price support program has worked extremely well and at an acceptable cost to the government and the taxpayer. For the ten-year period FY 1970–79, net federal expenditures on the dairy program averaged $335 million and CCC purchases averaged 3.8 billion pounds, or about 3 percent of the average annual milk production during that period.

In recent years, however, the program has simply not worked as it was intended. For the most recent five year period, FY 1980–84, dairy program costs have averaged $1.9 billion and CCC purchases have averaged over 12 billion pounds or about 10 percent of production. Last fiscal year, FY 1984, the CCC purchased the equivalent of 10.4 billion pounds of surplus milk at a cost of $1.5 billion. This was a direct subsidy of $7,500 per commercial dairy farm. This, however, underestimates the total cost of the program, since there were also indirect costs involved to consumers who had to pay higher prices for dairy products. If the price support had been reduced by $1.50 per cwt. in December of 1983, which many analysts felt was the amount needed to bring production back in line with demand, instead of the 50 cents that actually took place, consumers would have saved an additional $1.4 billion on dairy product purchases. Thus, total direct and indirect costs of the program last fiscal year amounted to a $14,500 subsidy for each of the almost 200,000 commercial dairy farms in the country.

Looked at another way, these direct and indirect costs of the dairy program in FY 1984 were equivalent to each farm receiving an extra $2.12 per cwt. on all milk produced in FY 1984. This was equivalent to 18 cents per gallon of milk, 21 cents per pound of cheese, 23 cents per pound of butter, and 13 cents per pound of nonfat dry milk.

From my perspective, these developments beginning in late 1979 and early 1980 were entirely predictable and not at all unexpected. In testimony to the Congress in 1979, I pointed out that it made absolutely no sense to increase the price support at that time since the milk-feed price ratio had reached a near record 1.62 early in the year and was expected to remain very favorable for most of that year. A milk-feed price ratio of 1.3 or higher is generally considered as a favorable indicator for producing more milk. The following year, BY 1980, the combination of two price support increases and a continued favorable milk-feed price ratio resulted in government purchases exceeding 8 billion pounds for the first time since 1954 and CCC costs exceeding the $1 billion mark for the first time ever.

Since 1981 seven separate pieces of dairy legislation have been passed by the Congress in an attempt to come to grips with the dairy surplus problem. A variety of mechanisms including producer assessments, deductions and paid diversion programs have been tried, yet the CCC will still purchase more than nine billion pounds of milk this year at a cost of more than 1.7 billion dollars. Clearly, the program is not working as was originally intended.

THE COMPROMISE BILL

The Dairy and Tobacco Adjustment Act of 1983, commonly referred to as the "Compromise Dairy Bill", started in the right direction by reducing the price support by 50 cents, but delayed further cuts for 15 months. That bill reduced the price support by 50 cents on December 1, 1983, and authorized two additional cuts in the price support, a 50 cent cut on April 1, 1985, and another 50 cent cut on July 1, 1985, if the Secretary of Agriculture projects that CCC purchases will exceed 6 billion and 5 billion pounds, respectively, for the 12 months following those dates. Based on current U.S.D.A. estimates, these two price cuts should occur. Yet already there are efforts afoot to circumvent these price cuts. The April 1 adjustment will be a wash to producers since it coincides with the removal of the 50 cent assessment. The July 1 drop, however, will send a clear and correct signal to producers that production still must be reduced. This needs to happen if we really want to start solving the surplus problem.

The Compromise Bill complicated the situation and postponed resolving the problem by calling for a paid milk diversion program that paid farmers to dump their milk or feed it to farm animals. The diversion program has been a particularly onerous part of the compromise package for milk processors and has largely been ineffective in reducing milk production. According to a recent U.S.D.A. news release "the drop in CCC purchases has resulted more from increased commercial use and increased farm use than from a drop in production." Our analysis supports the U.S.D.A. announcement.

Some proponents of the milk diversion program have made a tenuous link between last year's drop in CCC purchases and the milk diversion program, claiming that the diversion program was the cause of this drop. Published U.S.D.A. statistics clearly demonstrate that more than 56 percent of the 6.2 billion pound decrease in CCC purchases last fiscal year was due to the 3.5 billion pound increase in commercial sales of dairy products. Milk production was down by 1.6 billion pounds during the same period and accounted for only about 25 percent of the drop in CCC purchases.

A point that is often overlooked, particularly by proponents of the diversion program, is that on-farm use of milk last year increased by almost 2 billion pounds or nearly double the year earlier levels. This milk was either dumped on the farm or fed to animals so that farmers could qualify for the diversion payment. Farmers did not significantly reduce production, they simply did not send it to market. This clearly demonstrates that the structural changes needed to reduce surplus production have not yet occurred. A recent U.S.D.A. report shows that dairy replacement heifers are at a record high 45.6 per 100 cows. This compares to 40 heifers per 100 cows in 1981 and an average of 30 heifers during most of the 1970's. This clearly demonstrates that there is still far more productive capacity available on dairy farms than is needed.

WHAT TO DO IN 1985?

The patchwork dairy programs of the past four years have not worked. Dairy farmers, dairy food processors and consumers have had to respond to a confusing variety of, and often conflicting, signals from the government. We all know how we got into the surplus problem we face now—milk price supports have simply been too high relative to what the commercial demand was for dairy products. It is time to adopt a simple straightforward program that we know will work. That means no fancy gimmicks, no paid diversion programs, no production quotas, and no artificial taxes, assessments or penalties on dairy farmers for producing milk. Dairy farmers, processors and consumers can best respond to prices that are reflective of the commercial demand for those products.

We believe the long term solution to the dairy surplus problem can best be handled through the marketplace, where both producers and consumers can react to prices dictated by market supply and demand.

OUR POSITION

We believe that new dairy legislation should be designed to do the following:

Maintain an adequate supply of pure and wholesome milk to meet current and future needs.

Bring a better balance between milk production and demand.

Be market oriented.

Maintain stability for producers and consumers.

Provide for orderly market transition.

Reduce government costs.

Provide the flexibility needed for changing technology.

We have developed a simple, straightforward proposal that would accomplish all of these objectives over a four year period. The basic elements of the program would be as follows:

The CCC would purchase between 2 and 4 billion pounds of milk on an annual basis to meet feeding and nutritional program needs.

The price support for manufacturing grade milk would be set at $11.60 per hundredweight from October 1, 1985 through September 30, 1989.

The Secretary of Agriculture would be required to reduce this price by not less than 50 cents, effective October 1, 1986, and at the beginning of each subsequent fiscal year, if CCC purchases exceed 4 billion pounds or $750 million, whichever is less, or to increase this price by not less than 50 cents if CCC purchases fall below 2 billion pounds milkfat equivalent and 300 million pounds of nonfat dry milk.

The Secretary of Agriculture would have the discretionary authority to adjust the price one additional time during the year if purchases are anticipated to exceed 4 billion pounds or fall below 2 billion pounds.

Our proposal will reduce the cost of the federal dairy program to about one-third of the previous three year average, will bring about a better balance between milk production and demand, and will at the same time continue to assure an adequate supply of pure and wholesome milk to meet current and anticipated future demands.

SUPPLY AND DEMAND SITUATION

We expect milk production in FY 1985 to be down only marginally from last year's 137.4 billion pounds. Commercial sales of dairy products are expected to be up by about 1½ percent from a year ago to 127.5 billion pounds. Given these changes in production and commercial use, we expect CCC purchases to be in the neighborhood of 9 billion pounds. The cost of these purchases will likely exceed $1.7 billion.

Our analysis indicates that even with a price support of $11.60 per cwt., CCC purchases next year (FY 1986) would be in the neighborhood of 7.5 billion pounds and CCC program costs would exceed $1.5 billion. This indicates that the price support for milk must be something lower than $11.60 to bring milk production in balance with demand. A price support of $11.60 will ultimately bring milk production down, but our analysis indicates that it would take four years at this price level to get CCC purchases below 4.0 billion pounds; and if there is any significant changes in productivity, which are very likely, CCC purchases would probably remain above 4 billion pounds even in 1989 or 1990.

Our projections of CCC purchases assume, too, that we will see continued increases in commercial sales of dairy products in response to a reduction in the real price support level for milk. Our estimates for the four year period show that commercial use would increase from 127.5 billion pounds in FY 1986 to almost 139 billion pounds in FY 1989. These estimates were based on an annual demand elasticity of .30 and a continuation of the most recent ten year period trend in commercial (+1.1% per year).

Significantly, our analysis does not take account of the likely introduction of technological developments that could dramatically increase milk productivity per cow. Bovine hormones, now in the experimental stage, are likely to be introduced commercially within the next four years. These hormones will increase productivity per cow by 20-40 percent in some herds within a very short period of time and at a modest cost. Embryo transplants, three times a day milkings and improved feeding techniques can also significantly increase productivity per cow. New dairy legislation must contain some flexibility to be able to account for these changes should they occur.

MARKET ORIENTED

Our proposal assures that necessary adjustments to milk production and consumption will be accomplished by adjusting the price support level to clearly understood rules over the next four years. As I noted earlier, during the past four years, seven separate dairy bills have been passed by the Senate with each providing some unique and novel approaches to solving the surplus problem. Trouble is, none of them have worked. Dairy farmers did not know what to expect next and have had to respond to a confusing variety of, and often conflicting, signals from the government. We all know how we got into the surplus problem we now face—price supports have simply been high relative to what the market can bear. It is time to adopt a simple straightforward program that we know will work.

MAINTAIN STABILITY

We would propose to extend the $11.60 price support level with no adjustment (nor assessments, taxes or other gimmicks) for an additional twelve months, beginning October 1, 1985. This will result in the support price being held constant for fifteen consecutive months with no assessments, deductions or diversions to send confusing and conflicting signals to producers. This will give dairy farmers additional time and a clear signal to make production adjustments to reduce the level and cost of government dairy purchases.

INCREASED COMMERCIAL SALES

With no increase in the price support for milk in the past three years, the market has responded in the way it should be increased sales. Last year, commercial sales increased by 3.5 billion pounds, almost 3 percent, compared to a year earlier. Last year's surge in commercial sales is sound evidence that a lower support price means increased sales. That increase is a direct result of reduced and stable real milk prices.

It is significant to note that the retail price index for dairy products increased by only 1.6 percent per year since 1981, when the price support was last increased. For the five year period prior to that, when the milk support price was increased twice each year, the same retail price index increased by an average of 8.3 percent per year. For the past few years dairy products have been a good buy relative to other foods and last year we saw the first significant increase in sales in the past five years. It is clear that consumers will respond to price, so let's sell our way out of this problem, not buy our way out!

COST SAVINGS—GOVERNMENT AND CONSUMERS

Our proposal would over a period of several years reduce government dairy program costs to about $750 million per year. This is approximately the cost associated with purchasing, storing and handling 4 billion pounds of surplus milk on a fat equivalent basis. This would reduce the cost of the dairy price support program by about two-thirds from the average $2.1 billion cost of the program over the past three years and by more than half of last year's $1.5 billion cost.

To further reduce the cost of the dairy price support program we would propose that the Secretary of Agriculture be required to reduce the milk support price by not less than 50 cents per hundredweight on October 1, 1986, and at the beginning of each fiscal year through 1989, if net purchases by the Commodity Credit Corporation are projected by the Secretary to exceed 4 billion pounds milkfat equivalent or $750 million, whichever is less, during each fiscal year.

MINIMUM RESERVES

To ensure that the Commodity Credit Corporation maintains sufficient reserves of dairy products to meet national food aid and nutrition goals, our proposal would require the Secretary to increase the price support by not less than 50 cents per hundredweight if CCC purchases are projected to fall below 2 billion pounds milkfat equivalent and 300 million pounds of nonfat dry milk. Government purchases in the 2 to 4 billion pound range will provide stability in the marketplace for producers and consumers and will allow the government to continue to meet domestic food aid and nutritional commitments.

FLEXIBILITY

When CCC purchases are in the 2 to 4 billion pound range, our proposal would give the Secretary of Agriculture discretionary authority to adjust the support price as necessary, following 120 days of an announcement to do so, in order to maintain CCC purchases within that range. This flexibility is needed to take account of anticipated technological breakthroughs that may increase dairy cow productivity by 20 to 40 percent. Bovine hormones, embryo transfers and improved feeding methods are expected to have significant and immediate impacts on milk production if introduced in the next few years. We have seen an average annual increase in milk per cow of only two percent over the past ten years and consumer demand has not kept up with that.

If productivity per cow increases by 20 percent over a short period of time without a corresponding decrease in cow numbers or a significant increase in commercial sales, we will once again find ourselves with mountains of dairy products with no commercial outlets. These developments should be factored into the price support level by giving the Secretary authority to make the necessary adjustments to the price support.

Thank you for the opportunity to appear before you today. I would be pleased to answer any questions you may have.

STATEMENT OF S.F. RIEPMA, PRESIDENT, NATIONAL ASSOCIATION OF MARGARINE MANUFACTURERS

Thank you for this opportunity to present our Association's views on dairy price support policy. You may well ask why an association of margarine manufacturers has views on dairy price supports. The answer is simply this: where dairy supports cause the government to accumulate vast amounts of butter, and that butter is given away to schools and individuals, those recipients of free butter reduce or eliminate their purchases of reasonably priced, low-cholesterol margarine.

This Association is a nonprofit national organization representing the makers of most of the margarine products consumed in the United States. Margarine is the major table spread with a per capita consumption of about 10.5 pounds and a major market for soybean and other edible oils. Our membership includes firms producing dairy products, as well as margarine.

That a fundamental adjustment of the federal dairy price regulating system is overdue is widely recognized. We have given the subject careful consideration.

We urge your Committee to act to bring dairy products production into balance with market requirements by—

(1) Retaining the present law until its expiration date, September 30, including the two authorized deductions April 1 and July 1.

(2) Longer term, establishing a milk support price system that will avoid, as much as possible, further acquisitions of dairy products by the government. Such a system might include a lower price support level and continued provision for its adjustment according to Department of Agriculture forecasts of surplus acquisition volume.

(3) Making more effective the restriction in the donation law, the Temporary Emergency Food Assistance Act, Sec. 203(c), against displacement of normal commercial sales by donation of surplus commodities.

We strongly urge your Committee to help enact a dairy price policy that will closely target the purpose of supports—to assure an adequate supply of milk products, not to accumulate surpluses. Excessive government acquisitions and the exceedingly high costs to taxpayers should not be permitted to continue.

One particular aspect is of direct interest to us. Faced with hundreds of millions of pounds of unsalable butter in government surplus, Congress approved their being given to emergency food relief. That certainly is a worthy effort but it does nothing to solve the basic structural problem and in fact by displacing butter and cheese sales only adds to government stocks.

As for margarine, it is not price supported and does not have (nor do we want) a refuge in government warehouses. The injury done to margarine makers and distributors and the producers of its ingredient oils, chiefly soybean oil, is substantial.

We have caused a study to be made, a summary of which is attached. It finds the butter giveaway has cost margarine makers during 1983 and 1984 some 270 million pounds in sales. The program commenced earlier and is going on this year and perhaps next. Soybean farmers have lost an estimated 200 million pounds of market. I estimate the dollar losses, respectively, 1982–84, to be on the order of $120 million and $50 million.

Congress inserted into the donation law a proviso (Sec. 203(c)) requiring the Secretary of Agriculture to assure himself that displacement of normal commercial sales not take place. That has been ignored.

The donation program, a direct result of out of line milk price support, is a classic case of one industry's gift from Congress working injury on others, creating an unnecessary burden on taxpayers and providing no visible benefit to consumers.

IMPACT OF SURPLUS BUTTER GIVE-AWAY ON MARGARINE

SUMMARY OF MAJOR FINDINGS OF A STUDY CONDUCTED FOR THE NATIONAL ASSOCIATION OF MARGARINE MANUFACTURERS

The butter distribution program is having an adverse impact upon the margarine industry.

Individuals who are given more butter than they normally consume, quit purchasing margarine as well as butter.

For every 10 pounds of butter distributed, margarine sales declined by 7.7 pounds; 1983-84.

Displacement of margarine sales is 5 times as large as displacement of butter sales.

Most of the margarine displacement is concentrated in private label sales.

Although margarine prices rose somewhat during 1983 and 1984, due to higher soybean oil prices, the major factor causing reduced margarine sales was the butter distribution program.

The program adversely impacts on the soybean and other oilseed producers whose edible food oils are basic margarine ingredients.

Based on displacement analysis, approximately 200 million pounds of soybean oil were lost in 1983-84.

When distributed over all private label production, 20 percent additional excess capacity was created by the butter distribution program.

Private label manufacturers reduced employment 15-20 percent as a result of the distribution program.

It is entirely possible that the butter distribution program will force one or more margarine manufacturers out of business.

Dairy policies must be adopted that attack the root of the dairy surplus problem.

Either production must be overtly controlled or the price support level must be lower than it has been, and must be adjusted downward when CCC stocks and/or purchases rise.

The margarine industry has a direct interest in a dairy policy that will not generate surplus butter conditions.

STATEMENT OF ELLEN HAAS, EXECUTIVE DIRECTOR, PUBLIC VOICE FOR FOOD AND HEALTH POLICY

Thank you, Mr. Chairman. My name is Ellen Haas. I am Executive Director of Public Voice for Food and Health Policy, a nonprofit research and educational organization that works to promote the consumer interest in public and private decisionmaking on food and health policies. I very much appreciate your invitation to appear today to discuss dairy policies and the outlook for the next several years.

Consumers have an enormous stake in U.S. dairy policy. They spend $44 billion on dairy foods annually, and depend on them for protein, food energy, and a broad range of other nutrients. More pounds of dairy products are consumed than either grain products or meats. As a result, consumers, like producers, are extremely vulnerable to unstable prices. This concern, rooted as it is in the need to assure adequate supplies, has led to many of the important policy decisions in recent years, especially the decisions to write into the law in 1977 and again in 1981 requirements for steady increases in milk price supports.

In retrospect, those decisions were simply wrong and have let to unprecedented surpluses. Since FY 1980, Commodity Credit Corporation (CCC) costs have averaged more than $2 billion. Nearly half of CCC's 34-year total cost has come during the last five years.

Since 1980, the government has made repeated attempts to dampen production. In early 1981, legislation was passed to forego the last price support increase required by the 1977 Act. The 1981 Law effectively broke the link to parity and the automatic increases required by that index, although it did so by specifying minimum support prices that increased each year.

In the third effort in three years to better balance production with consumption, the 1983 Dairy and Tobacco Adjustment Act authorized cash payments to farmers who contracted to market less milk between January 1, 1984 and March 31, 1985 than they did during a 1981 base period.

THE OUTLOOK UNDER CURRENT POLICY

While the 1983 program likely diminished production, the sharply higher feed costs caused by the PIK program and drought in 1983 and 1984 may have had more to do with the herd reductions than the 1983 program simply because the feed cost impacts were so much more widely spread. Returns per cwt of milk in 1984 dropped 43 percent below the 1981 level. For many producers, returns were negative for the first time in years. The result was heavy culling, a reduction in concentrates fed, and a production decline.

Lower feed cost in 1985 and during the next several years are likely. Low costs, together with the end of the assessment program in 1985, indicate that a continuation of current policy implies a continuation of current problems. The 1984 reductions in cow numbers mean the herd is heavily culled, and now relatively young with superior capacity. The outlook for low feed costs and only slow increases in overall production costs implies little diminution of production incentives. With consumption growing slightly faster than population, the industry faces the requirement to reduce herds at least as fast as the growth in output per cow.

THE IMPORTANCE OF MORE EQUITABLE DAIRY POLICIES

Mr. Chairman, I understand that it is the purpose of this hearing to examine alternative policies. You are concerned today with the current program, where it has taken us, and what alternatives might be better. In that context, I want to emphasize three points and conclude with an observation.

First, the continuation of current policy, even with supports lowered twice this year to $11.60 per cwt and frozen there for the coming four years, is not likely to balance supply and consumption. The current prospects for abundant feed supplies imply that unless costs increase more than expected, surpluses will persist. The temporary 1983 program to help reduce capital investment in the industry led to lower cow numbers, but only a temporary reduction in production capacity.

Second, the Administration proposal contains significant dangers of investment dislocation and serious price instability for consumers. The programs would operate in their current form for two years, with price support levels reduced twice during the period. At the beginning of FY 1988, the price support program would end and be replaced by a target price, direct payment program. The payment would be limited to $10,000 per producer, and that amount is the maximum payment for participation in all commodity programs.

Those policies would cause major herd reductions and likely lead to an overreaction by producers, very tight milk supplies, and extremely high milk prices during the second and third year after the end of the price support programs.

Third, we have looked quickly at the Helms bill. We agree with its commitment to reduce supports levels persistently until a better production-consumption balance is achieved. However, it operates with a fairly restrictive formula. Price supports in FY 1986 are held at $11.60 per cwt, the same as under an extension of current policy. By requiring the Secretary to look forward each year in his projection, and then limiting the amount of the price support reduction by formula, the production-consumption balance could require a fairly long time to achieve, three or four years. We suggest price supports should be reduced below $11.60 in FY 1986 and continue to be adjusted steadily until a production-consumption balance is approached. The Secretary should be given firm direction and somewhat greater flexibility to accomplish that purpose.

Finally, Mr. Chairman, I would like to close with an observation. In order to insure adequate supplies of wholesome milk, and to limit pressures on producers from productivity growth, the government has played a large role in dairy marketing for more than 50 years. Adequate supplies of wholesome milk have been provided, and have come to be taken for granted. In the process, the government has developed a policy of controlling milk supplies. It has constructed a complex set of programs that limit imports, separate regional markets, and support milk prices. This intervention alters the economic and geographic nature of the industry. It insures incentives to produce in regions that would otherwise import milk. It has encouraged the production of dairy substitutes and diminished markets. And, it has enormously increased consumer costs.

Through the government's continued market intervention, milk consumption has been reduced and prices held above levels they would have reached in more competitive markets. Not only have consumers paid higher prices, but they have paid higher taxes because the programs have operated at vast government expenses, especially since 1979.

While the basic concern regarding adequate and wholesome milk supplies has not changed since the programs began, recent experience indicates these objectives alone do not sufficiently emphasize consumers' interest. Four additional criteria are needed. They would require that effective dairy policies:

Achieve a balance between production and consumption at reasonable prices, and be sufficiently flexible to respond to changing circumstances by adjusting price support levels in order to facilitate such a balance. Not only would such programs reduce market intervention, but they would operate at minimal government cost.

Rely on simple, direct programs that permit market forces to balance and adjust production and consumption. Programs that intervene continually to restrict production, marketings, or assess producers are confusing and costly to administer and may slow rather than facilitate adjustment. Similarly, programs that use administrative rules to prevent competition between markets or divert products from one use to another tend to reduce efficiency, misallocate resources, and raise consumer costs.

Protect both producers and consumers by limiting the price and production instability inherent in milk production. Policy changes must avoid unnecessary disruptions and sharp changes in consumer costs so that adjustments toward a balance are incremental rather than severe shifts likely to cause dislocation and overreaction.

Insure that wholesale and retail price changes reflect competition and the industry's rapid productivity growth.

Finally, we believe that a much more equitable policy could be developed through small shifts in policy, using essentially the same programs we have today. Two small but important changes are required. First, the Secretary must be required to forecast milk production and consumption frequently and reduce supports whenever large surpluses are projected. Second, the Secretary must have considerable discretion to determine price supports, but the law must contain clear direction to be used in setting support levels.

The program's purpose must be limited to alleviating large price swings. Thus, the intent would be to provide price supports generally slightly below market clearing levels so as to minimize the degree of CCC market intervention. The Secretary would be directed to use recent market price levels, trends in production, consumption, and cost, and other relevant economic factors in determining price support levels.

The program would be designed to acquire small amounts of stocks in most years for use in ongoing feeding programs. However, in the event the price support program does not acquire adequate stocks, they are to be purchased through normal procurement channels rather than through increases in price supports for that purpose.

We believe such a policy would be simple, effective, and low cost, and that it would provide crucial protections for both producers and consumers.

Thank you very much for the opportunity to appear today. I will be glad to answer any questions you may have.

STATEMENT OF IRVIN J. ELKIN, PRESIDENT, ASSOCIATED MILK PRODUCERS, INC.

I am Irvin J. Elkin, a dairy farmer from Amery, Wisconsin. I am also president of Associated Milk Producers, Inc., a dairy cooperative marketing association headquartered in San Antonio, Texas.

AMPI membership is comprised of more than 25,000 dairy farmers in 20 states through the central United States. In developing the organization that has become AMPI, we, as dairy farmers, have sought assurance of a market for our production, improved income and price stability and the opportunity for a reasonable return on the resources devoted to our farming operations.

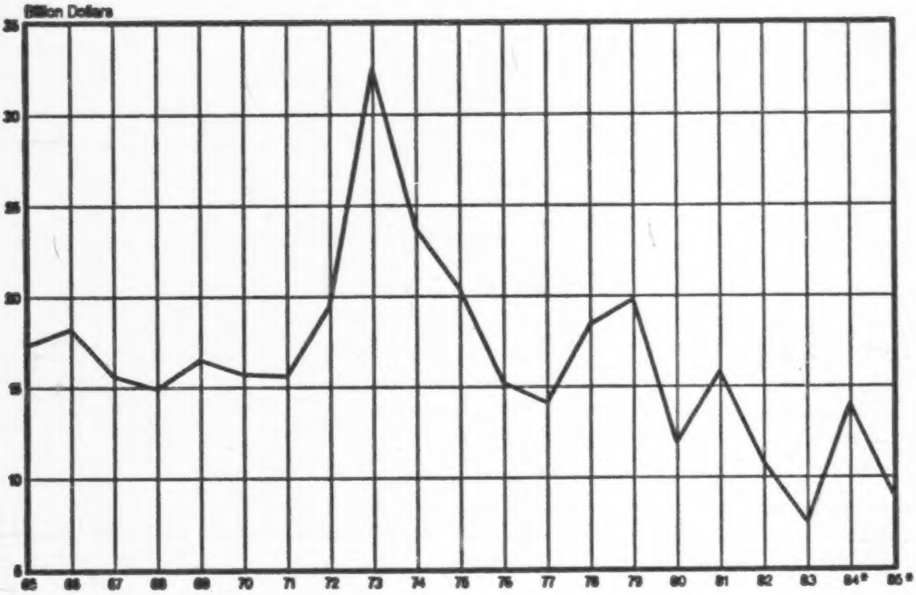
Over the past several months more attention has been focused on American agriculture and the individual farmer's situation than at any time in the past decade. This is understandable as a problem of crisis proportions exists today. An increasing number of the nation's commercial farmers are carrying debt loads which, when balanced against declining asset values, are effectively reducing them to insolvency.

The Congress has sought to address this issue. It must be addressed. However, a short term fix of the debt crisis will not be enough. The farm debt situation is not the basic problem. It is, in fact, a symptom of the real problem. The real problem is reduced farm income, the result of low commodity prices.

The chart below illustrates this problem more clearly than words. Since the peak year of 1973, farm income, in 1972 dollars has steadily declined. As grim as the situation is today in the spring of 1985, USDA's current forecast of farm income for the coming year sees another sharp decline this year.

TOTAL NET FARM INCOME IN 1972 DOLLARS

1965–1985



* FORECASTED

SOURCE: Economic Research Service, USDA

The opportunity exists in the development of the 1985 Farm Bill to address this basic problem. Some have recommended a "hands off" policy. Such a policy would allow the erosion of asset value and the revaluation of agriculture to the point that production may once again be profitable at current or lower price levels. Such a policy places no price on the cost to be paid in human misery and suffering or the losses to main street America as financial institutions, agricultural suppliers and others dependant on the farm economy wither and die along with many farmers. There has to be a better way.

While Associated Milk Products, Inc. confines its specific policy recommendations to issues dealing with the dairy industry, we support efforts to improve income opportunities for other agricultural producers. We recognize that no sector of agriculture can long maintain a degree of economic well-being if the industry as a whole is depressed. It has been said, "Cheap feed makes cheap meat, milk and eggs." That is a fact.

Since 1981, there has been almost constant attention by this Committee and the Congress to dairy price support legislation. Those efforts have focused on the needed restoration of a reasonable supply-demand balance in the industry and a reduction in government costs under the Dairy Price Support Program.

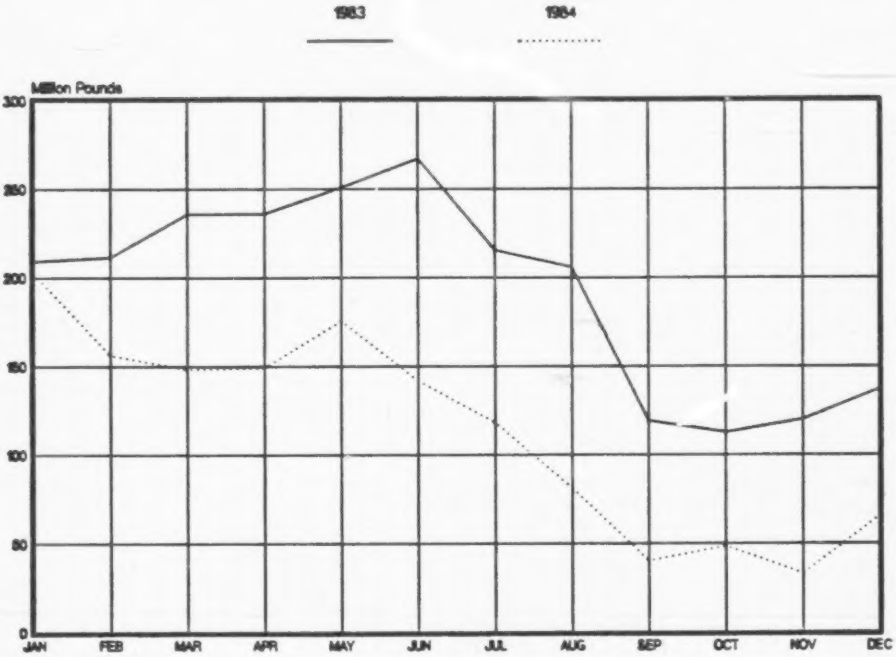
In 1982, the present administration successfully opposed dairy industry recommendations for a standby supply-management authority that would have allowed dairy farmers to tailor their production to market needs while placing an absolute cap on government costs. The result was the assessment program which was universally unpopular and notably ineffective in achieving the desired ends.

In 1983, under the leadership of a number of Members of this Committee, the so-called Dairy Compromise was fashioned. This two-part program provided farmers with important self-help elements. First, the producer funded milk diversion program provided a needed supply management tool. Second, the Dairy Promotion Program provided the needed authority for the dairy industry to unite behind a coordinated, full participation program of dairy product promotion funded and directed by dairy farmers.

The milk diversion program has been successful. Net expenditures under the Dairy Price Support Program were reduced by more than $1 billion from Fiscal 1983 to Fiscal 1984. Milk production, which had increased for 56 straight months, turned downward with implementation of the program. Dairy product purchases by the Commodity Credit Corporation have declined sharply. Each of these points are illustrated in the accompanying charts.

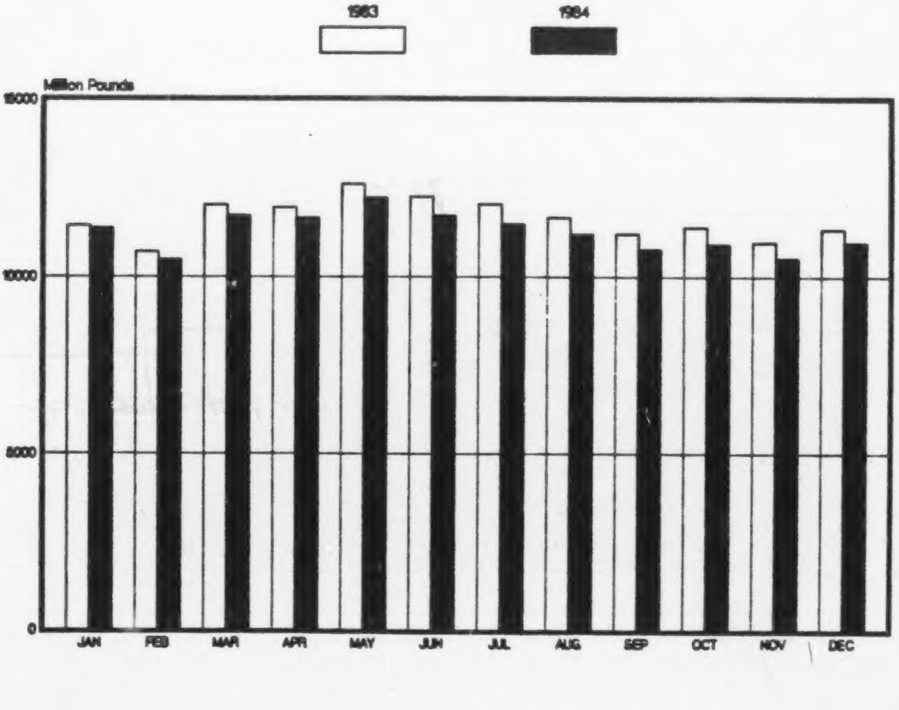
COMMODITY CREDIT CORPORATION

DAIRY PRODUCT PURCHASES, 1983 & 1984, TOTAL PRODUCT POUNDS



U.S. MILK PRODUCTION

BY MONTH 1983 & 1984



The milk diversion program could have been an even greater success. The program's 15 month duration was too short to fully meet the need, a fact recognized in the introduction of legislation to extend the diversion period. Uncertainty as to exact program provisions and frequent changes of administrative interpretation during the signup period caused confusion and disillusionment among many farmers. Concern over possible program penalties and reporting requirements caused some farmers to stay out of the program even though it would have been beneficial for them to participate. Others stayed out of the program since there was no penalty or disincentive to production expansion.

Even with these shortcomings, the program has effectively demonstrated the effectiveness of the concept. The opportunity is there to build on that experience as the 1985 Farm Bill is developed.

Some have recommended termination of the Dairy Price Support Program as it has operated under the Agriculture Act of 1949. Such proposals are supported by arguments to the effect that the industry has changed, therefore the program should be changed or that it is no longer needed. The point is made that government costs under the program have risen sharply in the past few years that termination would be a certain control of those costs. It is argued that consumers would benefit from such a move.

These statements ignore basic facts of the dairy industry and milk marketing. The basic conditions which required establishment of the price support program continue. In some respects, the need for this price stabilizing element is greater today. The market for milk is still characterized by many producers and relatively few buyers. Certainly, there are fewer dairy farmers today but there has also been significant consolidation among milk buyers. Even the largest producer in a market lacks the ability to influence the price of his product.

The counter-seasonal pattern of milk production and demand for milk and dairy products makes it essential to have a market stabilizing element available to prevent disaster level prices in the spring when milk supplies are surplus to current needs and rapidly rising prices in the fall and early winter. Given the seasonal pattern of both production and consumption, if there are to be adequate supplies of milk in November, there must be some excess available in May. The problem is to prevent that excess from depressing prices.

The nature of the product itself creates the need for the program. Milk is a bulky, highly perishable product that must be processed literally within hours of production. The producer has no storage option available to him. Once produced, the milk must be marketed. The individual producer has no ability to hold his production in the hope of later price improvement.

Looking at the consumer side of the issue, one must be impressed by the fact that consumer prices for dairy products have increased substantially less than prices for all consumer items or food generally.

Price Index Comparisons, January 1985

	(1967=100)
Consumer Price Index	316.1
All food consumed at home	296.1
Dairy products	258.1

The above demonstrates the effectiveness of dairy policy in stabilizing retail prices over time and encouraging improved efficiency in the production and marketing of milk and dairy products.

If implemented, proposals to eliminate the price support program would eliminate the stabilizing effect that the program has had for the past 35 years. It would set the stage for wildly volatile price conditions at both the farm and consumer level.

This would come about as we progressively destroy the productive capacity of the nation's dairy industry. Those are strong words. Can they be supported? Some simple comparisons using current USDA estimates will do that.

The Department of Agriculture recently released its estimates of the cost of producing milk for 1984. Total economic costs of milk production for last year are projected at $13.75 per hundredweight. That includes $1.47 for unpaid family labor. If we were to eliminate the family labor factor, total production costs are $12.28 per hundredweight for 1984.

In outlining its farm policy recommendations, USDA presented estimates of farm prices. This included an estimate of the farm price for manufacturing grade milk for the years 1987 through 1990, years following termination of the price support program. Nationally, the price farmers receive for all milk averages about $1 per hundredweight above the manufacturing grade milk price. Adding that, we have the following USDA farm price estimates for milk:

	Manufacturing grade milk	All milk
1987	$ 9.75 to 10.25	$10.75 to 11.25
1988	10.00 to 10.75	11.00 to 11.75
1989	10.50 to 11.75	11.50 to 12.75
1990	11.25 to 12.00	12.25 to 13.00

Under this scenario, USDA is saying that farmers will produce milk at less than the cost of production although they would see a slight return by 1989 and 1990 if they are willing to put their family labor in at no value and costs remained at 1984 levels.

This, of course, would not happen. Already the economic viability of many dairy farms has been stretched to the breaking point. We would see a massive exodus from the business. This would cause milk prices to rise rapidly—to what levels, no one can predict with any accuracy. Such wild swings are not good for the dairy industry nor are they acceptable to the consumer.

Of course, it may be that administration planners have the answer to such a situation well in hand. In 1973 and 1974 we witnessed the repeated expansion of dairy product imports for the express purpose of holding down prices. That finally worked when the farm price for manufacturing milk was driven down by more than 20 percent in ninety days in mid-1974.

Dairy farmers recognize the need for policy adjustments to meet current needs. This should be done by looking at the reality of the situation and building on the lessons we have learned.

A year ago, the voting delegates at the Associated Milk Producers, Inc. annual meeting adopted the following statement:

"AMPI favors permanent stand-by legislation to be made effective in conjunction with the existing price support program in those marketing years in which the Secretary of Agriculture estimates that CCC purchases of surplus dairy products will exceed a specified reasonable level, and suspended at the discretion of the Secretary when he estimates that CCC purchases will be below that level. The plan would provide a system of 'pooling' milk proceeds so that producers would receive commercial market prices for their pro-rata share of commercial market sales as determined by their marketing histories, and a lesser price for any additional milk deliveries, without altering the prices charged handlers and manufacturers, provided that the marketing histories of producers participating in the dairy diversion program shall not be reduced as a result of such participation."

The National Milk Producers Federation membership unanimously adopted a policy position also calling for a dairy policy employing a standby authority for the use of an incentive/penalty program when substantial adjustments in supplies are necessary.

AMPI is working within the framework of the Federation to develop a program outline that would achieve that objective.

There are several other dairy policy questions raised with respect to the 1985 Farm Bill.

Authority for seasonal base plans and so-called "Louisville" plans under Federal milk market orders expire this year. Such programs are included as part of a number of market orders. Their purpose is quite simply to encourage dairy farmers to tailor their production to the seasonal pattern of market demand. They have been quite effective in accomplishing this. This has meant greater efficiency in the handling of market reserve supplies and, overall, has reduced the cost of milk marketing. It has meant both greater returns to producers and reduced costs to consumers. This authority should be continued.

Authority to transfer CCC held dairy products to the Veterans Administration hospitals and the military expires at the end of this year. This should be continued. This authority can be effective in reducing government costs by making beneficial use of commodities already held by the government.

The Dairy Indemnity Program also expires this year. For the past several years, proposals have been made to terminate the program as part of the budget process. Congress has rejected these plans and the program should be extended as part of this legislation. The indemnity program has been a low cost operation throughout its existence. It has, however, prevented the economic devastation of individual farms where milk is barred from the market due to the presence of pesticide, toxic chemical or nuclear residue. Safeguards are built into the program. In the case of pesticide residues, it must be established that the problem is not the result of misuse of a product by the dairyman. In the case of other residues, no indemnity will be paid if it is determined that the producer has recourse for recovery against another party.

The administration has proposed creation of a task force to study the Federal Milk Market Order Program. Frankly, we see little need for such work at this time. The 1981 Farm Bill directed a broad study of dairy policy, including Federal milk market orders. This work has been completed and its findings are available to the Secretary at present. Further, the procedures for any needed change in market orders are in place and available for use. We find it difficult to understand the potential value of duplicating the earlier work. This could, in fact, be detrimental to the extent that the existence of such a task force might be used as a reason to delay making needed order revisions pending completion of the study.

The proposed agricultural trade title advanced by the administration bill seeks to encourage or direct negotiations with U.S. trading partners for reduction of barriers to U.S. exports. In exchange, the U.S. would reduce barriers it maintains. This could be taken as a basis for elimination of the Section 22 import restraints on dairy products.

These imitations are essential to prevent the U.S. from becoming a dumping ground for world dairy surpluses. Prices in the so called world market for dairy products generally bear little relation to the value of milk used to produce the products or the price in the markets of most exporting nations.

USDA reports current "world" prices for dairy products as follows: Butter, 82 Percent Butterfat, 61 to 68 cents per pound; Cheddar Cheese, 48 to 57 cents per pound; and Nonfat Dairy Milk 27 to 32 cents per pound.

These price levels are determined by the level of export subsidy major exporters use to move their products into international trade.

Actually, the import limits imposed by the United States can be viewed as emminently fair from the standpoint of providing market access. Since the first quotas were imposed in 1953, U.S. dairy product imports have increased by more than 500 percent. This does not include the skim milk equivalent of casein imports which continue to grow and increased the cost of the Dairy Price Support Program.

STATEMENT OF DAN HOLLINGSWORTH, DAIRYMAN, SAN JACINTO, CA, ENDORSED BY: WASHINGTON STATE DAIRYMEN'S FEDERATION, OLYMPIA, WA, AND NORTHWEST DAIRYMEN'S ASSOCIATION, SEATTLE, WA

Mr. Chairman and Members of the Subcommittee: It is a pleasure to testify before this committee and tell you how we can bring the supply of milk production down to demand levels within a very short period of time, eliminate the excess purchases of dairy products by the Commodity Credit Corporation, not cost the government any money, and, on balance, not cost the dairymen any money and not hurt a single producing dairyman in the process.

Today the total dairy industry is suffering financial disaster, economic chaos and is troubled with burdensome over-production resulting in low prices for our product. All this trauma to the industry is a result of over expansion caused by a national dairy support price bearing no relationship to the market and consumer demands.

We are challenged to reduce the total resources within the industry approximately ten percent.

I believe the "No Net Cost Self Help Dairy Plan" offers the best way to contract the total resources within the dairy industry.

However, before I outline the plan, let me define our industry goals—short term and long term.

Our short term industry goal, which I believe all of us can agree on, is one that achieves the following:

1. brings supply and demand into balance,
2. reduces Commodity Credit Corporation purchases to less than four billion pounds milk equivalent on an annual basis,
3. relieves the taxpayers of the burdensome cost of funding an exorbitant dairy program,
4. returns profitability to the nation's dairy industry.

The "No Net Cost Self Help Dairy Plan" is designed to accomplish this short term goal.

Our long term goal has to be one that allows the market to work, insures an adequate supply of milk for the consumer, maintains profitability for the dairy industry, but allows the laws of supply and demand to work to be sure we never find our industry in such chaos again.

With any effective program to reduce total production of milk, certain things have to happen and cannot be avoided.

These are as follows:

1. Dairy cattle must go to slaughter or export. a. The industry can witness hundreds of foreclosures, forced sales and bankruptcies with cattle and dairy facilities moving to other dairymen at depressed prices in traumatic and stressful situations. However, we do nothing to decrease production until cattle go to slaughter.

2. Some dairymen must leave the industry.

3. Manufacturing plants will not have adequate supplies of milk to operate efficiently, and some will have to cease operations. a. The fluid milk market accounts for about half of all marketings. This demand is relatively constant. If we reduce total supply by 10 percent, we reduce available milk for manufacturing plants approximately 20 percent.

4. Allied industries will suffer a. With fewer cows and dairies, hay and feed grain needs and basic suppliers to the industry will be reduced.

These adverse impacts cannot be avoided regardless of how we accomplish our goal and should no longer be at issue. However, we should do everything possible to lessen these negative impacts.

For example, I believe a task force should be appointed to determine how we can lessen the impact on the red meat industry. This group should represent, but not be limited to, dairymen, the red meat industry, the U.S.D.A., the Departments of Commerce, Defense, State, Trade and the Export/Import Bank.

They should consider, but not be limited to, increased usage of meat by the military and school lunch programs, diverting or reducing imports of beef and exporting a high percentage of good young cows.

How do we accomplish our short-term goal with the least economic impact on the industry? I believe there is a simple, efficient and effective solution that doesn't hurt a single dairyman, is voluntary and doesn't cost the government any money.

This solution is called the "No Net Cost Self Help Dairy Plan."

Under this proposal, enough cows in total herd units would be removed or "retired" to bring supply into balance with demand. The dairyman whose bid is accepted would also agree to remain out of business for a specified period of time. This would be a voluntary program on a bid basis, administered by the Secretary of Agriculture and carried out over a period of six to twelve months, in order to soften the impact on the red meat industry. 500,000 to one million cows in total herd units would probably be removed.

The dairyman wishing to participate in the program would submit a binding offer to U.S.D.A. and give the price over and above slaughter value that he would be willing to accept for his entire milking herd of cows two years old and over. He would also submit copies of his creamery statements for the past twelve months so the Secretary can determine total pounds of milk reduced nationally. If this dairyman's bid is accepted, he would have 30 days to dispose of all cattle, but they must go to slaughter or export, and he would receive the slaughter or export value. If his bid was not low enough to be accepted the first month, he may resubmit it the following month at the same price, a higher or lower price, or withdraw it. This process should continue until such time as total C.C.C. purchases would be projected at less than four billion pounds milk equivalent on an annual basis.

If the remaining dairymen paid the purchase cost of this herd reduction program, it would probably cost 6 to 12 cents per hundredweight of milk over a period of three years.

This estimate is based on average purchase costs above slaughter value of $450 per head or $450 million for one million head. While this figure is an estimate only, it is helpful to compare it to 1983 C.C.C. purchase costs of $2.6 billion, the estimated one billion dollars dairymen will spend to pay the purchase costs of the Milk Diversion Program, and the $2.7 billion projected cost of the dairy program under U.S.D.A.'s proposal for the Agriculture Adjustment Act of 1985.

After the milk supply is in balance and we are at times short of milk, the market price should rise considerably and more than make up the assessment cost.

Now let's look at savings to the taxpayer. For every cow removed, producing 12,000 pounds of milk annually, $2,040 will be saved based on purchase, storage and transportation costs of $17 per hundredweight. If 500,000 cows are removed, one billion dollars will be saved each year. If one million cows are removed, two billion dollars will be saved.

During the calendar year 1983, 12 percent of all milk marketed was purchased by the Commodity Credit Corporation at a cost of $2.6 billion. Products purchased represented 32 percent of U.S. butter production, 70 percent of nonfat dry milk production and 28 percent of American cheese production. The Administration, Congress and the taxpayer will no longer tolerate this drain on budget dollars. We must contract the total resources within the dairy industry.

Although domestic usage of milk has increased in recent months, and the Milk Diversion Program has reduced cow numbers by 330,000 head, we still have 800,000 more heifers over 500 pounds than we had when the surplus build up began in 1979. When the Milk Diversion Program ends, no one really knows how much more reduction in supply will be necessary. The "Self Help" plan is flexible enough to bring supply and demand in balance and should also prevent overkill or shortages of milk.

In summary, upon completion of this program, we will see the following:

1. Supply will be back in balance with demand.
2. The dairyman who wanted out of business was given an opportunity.
3. Those dairymen whose bids were accepted went out voluntarily and were paid the price they asked.
4. If their bid was not accepted, or they did not bid, they are left in an economically healthy industry.
5. The government is no longer buying excess dairy products.
6. Cost of the program is paid for by the industry but should be returned by increased prices in the market place.
7. The combined dairy-beef cow herd will have been reduced two percent based on today's figures of approximately 11 million dairy cows and 39 million beef cows.

No producing dairyman will be hurt by this program. If the program doesn't fit an individual, he doesn't need to apply. The plan is voluntary.

The "No Net Cost Self Help Dairy Plan" should be used as a one time tool to correct the tremendous over supply of dairy production in this nation.

After we have accomplished our short-term goal, we must have a sound long-term program to maintain stability within the industry for years to come.

The support price must reflect market conditions, and it should never be profitable to produce milk solely for the government and for C.C.C. storage.

The support price should remain at $12.10 per hundredweight for milk containing 3.67 percent butter fat. This price would be adjusted every six months based on projected C.C.C. purchases on an annual basis.

If C.C.C. projected purchases exceed four billion pounds milk equivalent on an annual basis, the support price would be lowered. If C.C.C. projected purchases are less than two billion pounds, the support price would be increased.

The sell back provisions of the C.C.C. should be frozen at the higher of 110 percent of $12.10 per hundredweight milk equivalent or the support price.

The market price must be allowed to work. However, with huge government inventories of dairy products, the C.C.C. can in effect "cap" the market price. If the sell back provision is not frozen and support price drops, market price will also drop until this inventory is depleted.

In testimony before this committee on April 14, 1983, Deputy Secretary Richard E. Lyng stated that "A solution to the dairy problem must be unique. It should be designed to strike directly at the heart of the situation."

He further quoted the Secretary of Agriculture's dairy policy statement issued in March 1983 in which the Secretary urged that a solution embrace these principles:

> "It should allow freedom of initiative for an individual dairyman. It should not force him to operate under any type of restrictive system.
>
> "It should maintain the basic type of program that has served the producers and the industry so well since 1949.
>
> "It should lower dairy surpluses by simultaneously reducing milk production and increasing consumption.
>
> "It should be simple to administer and easily understood by dairy farmers.
>
> "It should give the Secretary of Agriculture the flexibility over time to adjust the program to changing supply and demand situations.

"Proposals which embrace these principles will receive the support of this Administration."

These principles are just as valid today as they were two years ago.

The "No Net Cost Self Help Dairy Plan," with a support price reflecting market conditions, coupled with a promotion program already in effect, embraces all of these principles and deserves the support of Congress and the Administration and should be enacted as soon as practical.

Mr. Chairman and Members of the Committee, I want to thank you for the opportunity to present my remarks today. I will be happy to respond to any questions you might have.

NO NET COST SELF HELP DAIRY PLAN—LEGISLATIVE OUTLINE

Term: Not less than six months and not more than twelve months, beginning as soon as practical after April 1, 1985.

The Secretary of Agriculture shall have the authority to reduce national milk production by reducing the number of milking herds nationally with voluntary participation on a bid basis.

The program shall be under the administration of the Secretary of Agriculture.

The total amount of milk equivalent reduction shall be the amount necessary to result in Commodity Credit Corporation purchases less than four billion pounds milk equivalent projected on an annual basis.

This program is open to all producing dairymen.

Bids shall be submitted and accepted monthly.

Bids not accepted may be withdrawn, increased or decreased the following month.

Dairyman who wishes to participate submits a binding offer to U.S.D.A.

Offer submitted shall include price per head over and above slaughter value for the entire milking dairy herd over two years of age.

Dairyman signs a statement stating he has not sold any female dairy cattle two years old and over other than to slaughter or export in the past 60 days and will not sell any other than to slaughter or export prior to the acceptance or rejection of his bid.

Dairyman will have up to 30 days from date of bid acceptance to dispose of all female dairy cattle two years old and over.

All cattle must go to slaughter or export.

Dairyman may choose his own slaughter market.

Registered cattle of genetically superior quality would be exempt from slaughter, but exempt animals must represent the top 20 percent of cattle in the respective breed organizations. The Secretary shall develop these criteria in cooperation with the Purebred Dairy Cattle Associations.

Receipt for slaughter shall be submitted to U.S.D.A.

Payment by U.S.D.A. shall be made within 60 days from date of compliance.

Dairyman agrees to remain out of milk production business for five years.

With his offer, the dairyman shall submit a copy of his creamery statement or other records substantiating production for the previous 12 months.

On a total herd basis, the lowest per cow bids received shall be accepted first, then the next highest, until the amount is reached for that specific bid period.

The Secretary shall have discretion to spread the bidding process over the entire term of the program.

The Secretary shall develop safeguards to insure the integrity of the program.

The support price will be maintained at $12.10 per hundredweight for milk containing 3.67 percent butterfat.

Herd purchase costs shall be paid for by the nation's producing dairymen.

The Secretary is authorized to deduct up to 25 cents per hundredweight for all milk produced.

Term of the deduction shall not exceed three years beginning with the effective date of the program.

Monies collected shall be submitted to the Commodity Credit Corporation each calendar month.

All deductions shall cease when total herd purchase costs have been remitted to the Commodity Credit Corporation.

STATEMENT OF FRED DOUMA, CHAIRMAN, MILK PRODUCERS COUNCIL

Mr. Chairman and members of the committee, my name is Fred A. Douma. I am a dairy producer from Southern California. I am also the Chairman of Milk Producers Council, a trade association of dairy producers. My testimony today is endorsed by all of the various producer groups of Southern California and in concert in principle with the majority of the entire dairy industry in California.

Our proposals for the 1985 Farm Act dairy programs can be divided into four basic positions.

The first position is a firm belief in the necessity of maintaining the current type of purchase program, i.e. outright purchase of cheese, butter and non-fat powder. This type of program is necessary to maintain stability in the dairy industry because of the very perishable nature of fluid milk products and the response time to changing market conditions. The response time to a tight market is at a minimum two and one half years to enable the necessary increase in milking cows to come on line. Conversely, once a signal is given to increase production and the necessary increase of replacement heifers has taken place, the response time to change a flooded market is equally as long since the increase in replacement heifers has already happened.

This natural response time to change in market demands and the increase relationship in the commercial market place should clarify the necessity of maintaining a truly market related support program. Any dairy program should truly be a price stabilization program and not a price enhancement program.

Our second position is to achieve for the long term a tie between the support price for dairy products and the real cost of producing milk. A dairy specific parity index, as developed by National Milk Producers Federation, appears to achieve this goal. This type of index has the ability to track current and actual costs of producing milk, whereas the parity index which exists in current law has very little relationship to milk production costs.

The third position that we support is the application of mandatory and discretionary supply-demand adjustments to any price which is determined through a dairy specific index. This kind of adjustment would enable the Secretary to achieve a proper market oriented price.

A three to four billion pounds of milk equivalent purchase by Commodity Credit Corporation should be the base level to implement either a plus or minus factor to the index price. Any increase in import quotas of dairy products should be added to the base level of C.C.C. purchases.

Our fourth position is the acceptance of the $11.60 per hundredweight support price, which appears to be inevitable under current law to be the price on July 1 of this year, as the support price until expected C.C.C. purchases are below four billion pounds of milk equivalent.

We believe this price level will accomplish this goal by October of 1986 unless feed prices do not make the expected and justified upward adjustment. As a last resort, we could accept a stand-by authority after October 1986 for further adjustment below the $11.60 per hundredweight support price of $.50 increments if the goal of four billion pounds of C.C.C. purchases is still not expected to be achieved.

The groups that I represent emphatically oppose any program or even "stand-by authority" for a milk support program based on quotas, production bases, diversion payments, producer assessments or similar programs. Adjustments in production and consumption must be accomplished through adjustments in the price. Any diversion program or quota system will and has created distortions in available milk supplies in some areas while maintaining C.C.C. purchases in other areas.

Assessments on all milk production are a penalty on producers who are serving the commercial market and creates a source of funds to purchase products from areas which are unable or unwilling to serve a greater share of the commercial market.

Likewise, quota programs would prohibit the proper allocation of resources to the production areas which are the most efficient sources of milk to a particular area because of costs and location of that milk.

The recent experience of the Milk Diversion Program has shown how ineffective this type of program is in achieving the structural adjustments necessary to reduce the potential milk marketing capability. The major part of the recent reduction in milk marketing was an increase of on farm use of milk. This was a ridiculous use of diversion payments which allowed participants the ability to enter or expand in the veal and pork industries with monies intended to reduce overall cow numbers.

The majority of participants in the Milk Diversion Program had already reduced production in the year following the base period before a diversion program was implemented for reasons not related to the Milk Diversion Program but were compensated for this reduction also. Even more astounding was the fact that non-participants in the Milk Diversion Program with reductions in their total production exceeding 5% of their base, amounted to a larger share of the net reduction in production overall than the total volume reduced by participants. This could only mean that the price adjustment which took place did and will have an effect on milk production.

A voluntary diversion program would always have as its main outfall the desire for producers to make temporary cutbacks in production with the goal of being in a position to return to full capacity at the end of any contract period. This does not achieve the necessary adjustments needed for long range solutions.

The price alternative will send the proper signal to producers. More importantly the demand side of the supply-demand equation will respond with increased sales of dairy products.

The recent history can only emphasize this important fact. While milk production decreased by 1%, the commercial use of dairy products increased by 3%. This was the result of stable and lower prices and the improved economy in general. This increase in commercial use of dairy products has played a major role in reducing C.C.C. purchases in the past marketing year.

We urge your consideration and support for a price and market oriented dairy support program. We oppose any type of base, diversion and assessment type of program. We oppose any consideration of a target price program with deficiency payments. A dairy price support program with appropriate and timely supply-demand adjustments will achieve the necessary stability needed in the dairy industry to maintain the milk production necessary to adequately serve the consuming public with a necessary and vital food product at the most reasonable price.

We thank this committee for the opportunity to have this input on this important subject.

[From Dairy Market News, Week of Feb. 25-Mar. 1, 1985]

MILK DIVERSION PROGRAM (MDP) ANALYSIS SUMMARY [1]

Market administrators in Federal milk marketing orders combined their records with Milk Diversion Program information provided by the Agricultural Stabilization and Conservation Service (ASCS) in order to analyze marketing changes on individual dairy farms. The report contains information for the first three quarters (January-September) of 1984.

Monthly Federal order marketing records for over 100,000 farms, representing approximately 60 percent of total U.S. milk marketings, were compiled and analyzed for this study. ASCS diversion contracts were used to divide farms into two groups: Farms with a signed diversion contract to reduce marketings (MDP participants); and farms which chose not to participate (nonparticipants). Three comparisons were made for both participants and nonparticipants: 1983 marketings versus the base period marketings; 1984 marketings versus the base period; and 1984 marketings versus 1983 marketings.

Even prior to the MDP, eventual participants were generally reducing marketings, while nonparticipants tended to increase marketings. Between the base period and 1983, approximately 69 percent of the participants reduced marketings, while the remaining 31 percent increased marketings. Nearly the inverse proportions occurred with nonparticipants: Approximately 36 percent reduced marketings (base period—1983), while 64 percent increased marketings. On average, participants decreased marketings 5 percent between the base period and 1983, while nonparticipants increased marketings 7 percent.

MDP participants, on average, decreased marketings in each quarter of 1984 relative to the base period. The rate of decrease escalated as the year progressed: 21.5, 27.0, and 28.4 percent, respectively, for the three quarters. For the nine-month period in its entirety, participants decreased marketings 25.5 percent relative to the base period. For most Federal orders, participants reduced marketings during the nine-month period, on average, to a greater extent than called for in their contracts. Approximately 83 percent of all participants in the study were at or below the acceptable contracted level after 9 months. The remaining 17 percent were still marketing milk at levels in excess of their contract. All Federal order groups represented, except two (Texas and the Florida orders), had approximately 80 percent or more of participants within acceptable contract compliance levels.

Large numbers of nonparticipants also reduced marketings between the base period and 1984. In fact, the number of nonparticipants with marketing declines of 5 percent or more exceeded the number of participants for all orders combined. However, some regional disparity did exist among orders. In Federal orders in the northern U.S., nonparticipants with marketing declines of 5 percent or more tended to greatly exceed the number of participants; while in the south, the number of participants exceeded the number of nonparticipants with marketing declines exceeding 5 percent. Participation in the MDP could have doubled if these nonparticipants had chosen to participate. However, the cost of the MDP might also have increased significantly without any significant decreases in U.S. marketings.

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[1] This summary was from a report entitled "MARKETING CHANGES IN FEDERAL MILK MARKETING ORDERS: A farm level analysis of the milk diversion program, participants and nonparticipants, Part I: January-September 1984." Federal milk market administrators' offices contributed data necessary for the report. The report was prepared by the New York-New Jersey milk market administrator's office—Robert D. Wellington, project leader. For additional information about or requests for copies of the report, contact Mr. Wellington at (212) 309-1661.

Editors Note.—For additional background information regarding the MDP, see weekly Dairy Market News Report Volume 52, Report No. 6 and Volume 51, Report Nos. 45, 6, and 1.

MDP participants generally decreased marketings between 1983 and 1984. However, their level of decrease was less than the level which occurred in the base-1984 period. For the nine-month period, the base-to-1984 decrease was 25.5 percent; however, the 1983-84 decline was only 22.5 percent. This was the result of marketing declines which occurred between the base period and 1983.

More than half (55.1 percent) of the nonparticipants increased marketings during the nine-month period of 1984 relative to the same period of 1983. The remaining 44.9 percent decreased marketings. However, the percentage varied among the quarters—the number of nonparticipants decreasing marketings exceeded the number increasing marketings in the third quarter. Also larger volume farms had a greater tendency to increase marketings than smaller farms which tended to decrease marketings.

Nonparticipants who decreased marketings represented a substantial number of farms. In most quarters of 1984, this group contained twice as many farms as the group of participants. Moreover, in each quarter, nonparticipants with marketing decreases were responsible for total declines approximately equal to or greater than the participants' declines.

Further analyses for the entire MDP period (January 1, 1984, through March 31, 1985) as well as for a period after the program ends are planned.

STATEMENT OF DR. RONALD D. KNUTSON, PROFESSOR, AGRICULTURAL AND FOOD POLICY CENTER, TEXAS AGRICULTURAL EXPERIMENT STATION, TEXAS A&M UNIVERSITY SYSTEM

My name is Dr. Ronald D. Knutson. I am a professor in the Agricultural and Food Policy Center in the Department of Agricultural Economics at Texas A&M University. The Center staff has conducted extensive research on issues of dairy policy. The purpose of my testimony is to present the results of that research in terms of its policy implications.

The most basic finding of our research is that the dairy industry is on the verge of a technological revolution. This revolution holds the potential for generating chronically surplus milk supplies and marked region shifts in milk production. Even with the wisest policy decisions, these conditions will in all probability foster extensive economic and social turmoil in the milk industry over the next two decades.

The primary sources of change lie in the combination of the development of highly efficient large scale dairy farms and the introductions of new technologies. These technologies have the potential for further exaggerating the comparative advantage of large scale dairy farms. While most of these large farms are currently concentrated in the Southwest and Florida, they are developing in other states stretching from Washington to Georgia.

The majority of the milk today is produced in the Northeast and the Upper Midwest on some 150,000 farms having from 20 to 150 cows—typical family size dairy farms. In contrast, only 5,000 well managed dairy farms of the scale typical of Southwest dairying could produce all of the milk sold commercially in 1985. According to USDA statistics and an Office of Technology Assessment study released this week by this Committee, these large scale farms are clearly the most efficient in the United States. This efficiency is probably best illustrated by the increasing quantity of CCC purchases from the Southwest.

Large scale dairying has become more efficient because of the lower required capital investment, because of the application of the most recent technologies, because of a superior infrastructure serving its needs, and because of its high quality management. These are advantages that present major challenges to dairymen in the Northeast and Upper Midwest who have traditionally produced most of the milk needed for butter and cheese.

DESIGNING DAIRY POLICY TO COPE WITH CHANGE

In the past, the dairy industry has been relatively stable. Dairy policy has played an important role in fostering this stability. Yet to date, the milk industry has not been beset by major structural changes such as those that have occurred in broilers or cattle feeding. In addition, milk producers have not felt the direct brunt of international forces such as embargoes and the high valued dollar.

In the future, the dairy industry will be more unstable. Government will have a more difficult time promoting stability—and if it is overly aggressive in trying to stabilize the industry, surpluses and high government expenditures will be the rule rather than the exception.

One of the lessons of dairy policy over the past decade has been that the milk industry has great potential for generating surpluses. Unless these surpluses are curbed in their infancy, they have adverse effects on other segments of agriculture including beef producers and margarine manufacturers. In light of these research results, conditions, and observations, the following suggestions are made for future dairy policy:

(1) The major goal of dairy policy should be to facilitate adjustment in the milk industry while providing every opportunity for all sizes and types of milk producers to compete. Milk prices should be allowed to move gradually to market clearing levels while fostering conditions of economic stability to the extent that is possible.

(2) The price support purchase program should be continued in its present form. The support price level should by law be adjusted to automatically achieve a relative supply-demand balance. This can be accomplished automatically by using either a supply-demand adjuster or by a producer assessment that covers the cost of a substantial proportion of the purchase program.

The supply-demand adjuster schedule should be used to both raise and lower the price according to the magnitude of CCC purchases. The incremental adjustments should be large enough to significantly affect milk supply and demand conditions. An acceptable alternative automatic price adjustment mechanism would be to put the support program on a self financing basis through an assessment program. The size of the assessment would equal the projected net cost of CCC purchases divided by the pounds of milk produced annually.

(3) Authorization for the current dairy diversion program should be continued but on an enabling and self financing basis. When surplus conditions warrant, it could then be implemented without delay. With an effective supply-demand adjuster, it should not be necessary to use the diversion option very often. However, it is entirely possible that the milk price cannot be maintained within a politically acceptable range without reinstatement of supply management policies.

(4) Authorization should be provided for special targeted study of the problems of technology generation and transfer to family size dairy farms. Such authorization should consider both the extension and research dimensions of the problem. It should also explicitly recognize the role of cooperatives in developing technology transfer mechanisms.

(5) A special study should be authorized of the needed adjustments in the Federal Milk Marketing Order system in recognition of changes in the economics of milk production. One of the original justifications for pricing Class I milk Eau Claire plus transportation cost was that Wisconsin had the lowest milk production cost. Now that milk can be produced in several areas at approximately the same cost/cwt., the concept of a single basing point may be obsolete. The point is that major adjustments in the Federal Order system are likely now needed. The precise nature of those adjustments requires serious study and evaluation.

Contemporary studies of the dairy industry foretell major changes in the future. Many of these changes are, in fact, already occurring, but the pace of change is accelerating. Dairy policy must be sufficiently flexible to cope with that change. This can best be accomplished with programs that automatically adjust support prices to market clearing levels. Even with such a policy change, special attention will need to be given to surplus and structural change issues evolving from the technological dynamics of the milk industry.

STATEMENT OF RICHARD T. O'CONNELL, PRESIDENT, CHOCOLATE MANUFACTURERS ASSOCIATION OF THE U.S.A.

Mr. Chairman, Members of the Committee, I am Richard O'Connell, President of the Chocolate Manufacturers Association of the U.S.A. (CMA). CMA represents fifteen manufacturers of chocolate and chocolate products. These products include baking chocolate, chocolate confections, chocolate syrups and cocoa for drinking purposes, and chocolate-flavored milk. Our members also manufacture chocolate and cocoa ingredients used in ice cream, bakery goods, cereals, biscuit and cracker products.

The chocolate industry uses about $430,000,000 worth of milk annually, principally in the manufacture of milk chocolate. Milk chocolate constitutes about 90 percent of total chocolate confectionery sales. About 20 percent of a chocolate bar is milk.

Although we are discussing dairy price supports today, the dairy program is symptomatic of the problems in all the agriculture price support programs.

Mr. Chairman, throughout the last fifty years government programs have intervened almost constantly in markets for agricultural products. Through price support loans and target prices, and through direct purchases of commodities, producers have been given incentives to maintain or increase production even when market needs were declining. Not only have the results been huge government costs, but consumer prices far higher than necessary.

Since the early 1970s, growth of agricultural export markets has dominated our thinking, and provided the basis for policies which continue incentives to maintain or increase production. The declines in exports experienced since 1981 were seen as temporary, with growth expected year after year. However, the resumption of world economic growth has not rekindled U.S. export markets because our dollar is too strong and our prices too high—held high in many cases by inflexible price support programs. Nineteen eighty five likely will see another major decline in export revenues, now almost $10 billion below the 1981 peak.

Along with a decline in exports has come a tremendous increase in the costs of the commodity programs. The 1981 Farm Bill was the most expensive Farm Bill in history by a wide margin.

It is clear that the farm programs of the past are in need of fundamental changes.

The dairy program is a good example. The principal purposes of the dairy program are to insure an adequate supply of wholesome milk and to provide reasonable returns to the dairy farmer.

An adequate supply of wholesome milk is as important today as it was 50 years ago. However, the programs have gone far beyond that need, and have worked primarily to help protect producers from the necessary economic adjustments resulting from the substantial increases in productivity accompanied by only modest increases in demand.

In 1955, the average U.S. dairy cow produced 5,841 pounds of milk. In 1984, the average was 12,532 pounds, a 115 percent increase. During the same 29 years, commercial use of dairy products increased from 104 billion pounds to 125 billion, just over 20 percent. The rapid productivity growth and slow increases in consumption have meant enormous economic pressures.

The programs have attempted to reduce and alleviate those pressures, a goal everyone can understand. But no matter how worthy the goal, it can only succeed within an economic environment that fosters and promotes change. Rather than aleviate economic pressures as they facilitated adjustment, the programs have delayed necessary adjustments, caused enormous resource misallocations, and cost consumers and the government billions of dollars.

Since the 1930s, the government's continual presence in the dairy program has had three results. First, the programs have become enormously complicated, by far the most complex in agriculture. Not only are the programs difficult to understand, but they minimize international and regional trade and have major impacts on producers, consumers, and on resource use.

Second, they have changed the geographic and economic nature of the industry. Not only is milk now produced where it would otherwise be imported, but producers are signaled to expand production even when surpluses are mounting. They have encouraged the development of dairy substitutes such as margarine and artificial cheese and diminished dairy markets.

Third, the dairy industry has not passed new production efficiencies on to consumers. For an industry which claims to support a dairy program beneficial to all those affected by it—producers, consumers, users, and taxpayers—the reasons for not passing along cost savings are not supportable. We would submit the only reason such economic policies are possible is that the government's commitment to purchase unlimited quantities of milk products have masked the production efficiencies.

We compliment the dairy industry on their efficiencies, particularly on output per cow, but the fact that these efficiencies are overwhelming the price support program indicates the program adjusts too slowly to the production realities of the dairy program. Therefore, more flexibility is needed, along with swifter adjustments to production changes, and a possible recognition that perhaps not every dairy farmer can produce as much milk as he likes.

Recent surpluses and costs are unprecedented. Since 1950, the Commodity Credit Corporation (CCC) has spent $17.5 billion on dairy price supports, with almost half of the 34-year total during the past five years.

The pressure for change in these programs is undeniable. The last five year's overproduction can be linked directly to the inability of the current program to change supports—production incentives—as surpluses mounted. The Congress attempted many ways to avoid a direct confrontation on that issue since the problem became apparent in 1979. We urge that any new legislation take steps to insure that the program be changed so as to no longer provide incentives for large surpluses.

The latest facts and figures on milk surpluses are familiar to everyone. Milk production in FY 1984 was 136.8 billion pounds, 1.6 percent below year earlier. In FY 1985, production is forecast to be about 136.5 billion pounds, little changed from last year's level.

USDA net removals under the milk price support program totaled 9.8 billion pounds during FY 1984, down nearly half from FY 1983. Government costs decreased from nearly $2.6 billion in FY 1983 to $1.5 billion in FY 1984.

But the reasons for the reduction in government purchases are the most interesting aspect of these statistics. Earlier in the year, many groups said that lower government purchases were entirely due to the paid diversion program, which went into effect after the passage of the Dairy Stabilization Act of 1983.

Late last fall reports surfaced suggesting that much of the reduction in government purchases was caused by an increase in commercial use of dairy products. In fact, 1984 production was down 2.2 billion pounds, while consumption was 3.2 billion pounds higher. Noncommercial farm use was also higher. Of the 5.4 billion pound reduction in net removals that came from changes in production and commercial use, 60 percent was due to the consumption increase. Some of that increase came from a more robust economy, but more moderate retail prices made possible by reduced price supports certainly helped.

Dairy production responds to economic incentives. While the temporary diversion program reduced cow numbers, it also increased the capacity of the remaining herd by introducing higher quality replacements. The outlook for low feed costs this year means strong incentives to produce milk.

The diversion program must end on March 31, 1985. It has not served its purpose and there is no reason to extend it. CMA was opposed to paying dairy farmers not to produce milk in 1984 and we continue to oppose the concept. The 1983 Act does not appear to have improved longer-term prospects for balanced supply and use. The herd is not heavily culled and relatively young, with superior production capacity. If milk production incentives—price support levels—are not reduced, surplus production and enormous program costs can be expected to continue.

Mr. Chairman, the 1984 production figures indicate that the Secretary of Agriculture will have every reasons to institute the provisions of the 1983 Dairy Act and reduce price supports on April 1 and July 1, as provided by the law, since the outlook for CCC purchases in FY 1985 remains well over 5 billion pounds. This will result in an $11.60/cwt price support.

CMA is conducting an analysis of the dairy program and various policy options. We believe that even with supports at $11.60/cwt, CCC purchases will continue to be extremely large, well in excess of the 7½ billion pound level for most of the coming four-year period.

While our dairy program analysis is not complete, we have studied the possible consequences of three proposals: 1) continuation of the present dairy program assuming the price support will be $11.60/cwt after July 1, 2) the Administration's dairy proposal, and 3) the dairy program submitted by Senator Helms. In addition, we have looked at a no dairy program scenario beginning in FY 1986.

While no one has proposed an immediate end to the program, we feel such a scenario gives a clearer view of the long-term consequences of the Administration's proposal.

Mr. Chairman, I won't go into detail here regarding our appraisal of these alternatives. However, I do want to mention three major conclusions and offer a few comments on the Helms bill, which we feel has some possibilities.

First, a continuation of current policy even with price support levels frozen for four years at $11.60/cwt is likely to mean a continuation of current problems—largely costly surpluses. Low feed prices likely will encourage continuing strong production incentives in most regions. Productivity increases will outpace consumption and CCC net removals will exceed 10 billion pounds through the FY 1987-89 period. Costs will again exceed $2 billion annually.

My second conclusion is that the Administration proposal includes the risk of quite unstable prices. In addition, the direct payments program could be quite costly if the payments are not strictly limited.

The Administration has proposed changes to be made in two stages. In FY 1986 and FY 1987, the milk price support would be reduced in two 50 cent increments if production surpluses are expected, a situation that seems quite likely.

Beginning in FY 1988, a direct payment program would be substituted for the current price support program, and government price support purchases would end.

Target prices would be established, with payments based on the difference between the national average price for all milk and the target price.

A very significant feature of the Administration's proposal is the direct payment limitation. A declining schedule of limits is proposed, $20,000 per person in FY 1986, $15,000 in FY 1987, and $10,000 in FY 1988 and thereafter. However, the limit would apply to total payments made under all commodity titles of the bill. As a result, a producer who is eligible for direct payments under the feed grain or other programs in FY 1988 when the dairy direct payment program began would be limited to a total of $10,000 under all programs.

This policy would result in much slower production increases than would a continuation of current policy, and could achieve a near balance between production and consumption by the program's end, about FY 1989. CCC net removals would be 10.2 billion pounds in FY 1986 but decrease to zero as the purchase program is ended in FY 1988. Substantial direct payments would be made in both FY 1988 and FY 1989 even though target prices would be lowered sharply.

Our primary concern about this program is its potential for highly unstable prices, probably by FY 1990 and thereafter. In order to gauge such a likelihood, a "no program" scenario, beginning in FY 1986, allows us a better look at changes the Administration's dairy provisions would bring to the industry in 1990 or thereafter.

Because the price support program would end while production was still at a surplus level, prices would fall sharply. Heavy culling would cut milk production by nearly 6 billion pounds during the first three years of the program. The low prices and increasing consumption would strengthen markets so that government stocks could be sold. However, the tight supplies during FY 1988 and FY 1989 could increase prices and consumer costs dramatically. It is this potential price swing that concerns us. We believe the industry might cut back too fast and too far, and that the resulting shortages would be damaging.

Finally, Mr. Chairman, we support the basic goal of S. 616. Under the Helms' bill, the price support for FY 1986 would be $11.60/cwt. In following years, the Secretary would set milk price support levels as necessary to stabilize government purchases between 2 and 4 billion pounds annually. We are in favor of a program which limits government purchases.

To establish price support levels, the Secretary would project milk production and consumption before each year begins. If CCC purchases are expected to be above 10 billion pounds, price supports must be cut by $1.00; by 75 cents if purchases above 7.5 billion pounds are expected; and by 50 cents if purchases are likely to be above 6 billion pounds.

The Secretary could raise price supports if the projection indicates that would be necessary to insure an adequate supply of milk.

Mr. Chairman, we believe S. 616 would achieve a close balance between milk supply and use in the later years of the proposal. By gradually reducing supports, it would avoid incentives to overproduce, but would also avoid price instability. However, we have some problems with the first two years of the program.

Because the price support remains at $11.60/cwt for FY 1986, government costs will remain high as net removals increase. Under the Helms bill, we predict a government cost of $1.9 billion in FY 1986 with CCC purchases of 10.38 billion pounds.

Since purchases will be 8.2 billion pounds in FY 1987, the price support would be reduced only 75¢/cwt. when a $1.00/cwt is needed.

In general, S. 616 adjusts dairy price supports about one year behind the need. We believe the price support should be reduced at least $.50/cwt. in April of 1986 with another $.50 decrease in October. It is important to make the necessary reductions early and steadily in small increments.

We have two other concerns about the Helms' proposal. Basically, we believe formulas work only if they are very simple, and perhaps the Helms' formula could be simplified. If the Secretary were directed to reduce the support by $1.00/cwt when surpluses are projected to exceed 5 billion pounds, the direction to USDA to avoid large surpluses would be even clearer. If they had discretion to manage the program as necessary to hold surpluses between 2 to 4 billion pounds, the Department's authority would be less limited than under S. 616.

In addition, Mr. Chairman, we believe the Secretary should be required to examine the regional implications of price support changes in each of his annual projections. The industry is very different from region to region. Some of the recent problems have come from different regional responses and failures to respond. A more comprehensive, regional analysis each year would, we believe, improve the accuracy and usefulness of these forward looks.

One final comment on another proposal, Mr. Chairman. It has been suggested by some that a two-tier pricing system be used similar to the peanut program. Milk produced for the export market would be supported at a lower price than that produced for the domestic market.

The problem with this proposal is that, as in the case of peanuts, the domestic price is kept much higher than necessary, while foreign users benefit from the subsidized lower export price.

As manufacturers with heavy international competition, a lower price for the export market has a real impact on us. A two-tier system would mean that foreign manufacturers could buy the same quality U.S. milk at a much cheaper price, use it as an ingredient in their chocolate and then export the finished product to the United States at a lower price than our manufacturers can sell it in the United States—simply because of the lower-priced American ingredients available to them.

Mr. Chairman, in my testimony I have reviewed a number of proposed changes in the dairy program—some rather simple, some more complex. CMA believes simplicity is the key to an effective dairy program.

The dairy program has been considered by Congress seven times in the last four years. All kinds of proposals have been attempted. But the one simple proposal which has never been adopted is the easiest to implement and the most economically rational. And that is, simply lower the price support. A lower price will decrease production, decrease government purchases and costs, and decrease the retail price of the product.

The elimination of excessive surpluses and somewhat lower retail prices will balance the interest of the producer, the consumer, the taxpayer, and the user. What more could anyone want from a dairy program?

Thank you.

STATEMENT OF ROBERT F. ANDERSON, EXECUTIVE DIRECTOR, NATIONAL CHEESE INSTITUTE AND AMERICAN BUTTER INSTITUTE

My name is Robert F. Anderson. I am the Executive Director of the National Cheese Institute (NCI) and the American Butter Institute (ABI). On behalf of the members of both institutes, I am pleased to be invited to present the views of the processors of over half the milk produced in this country.

Both the National Cheese Institute, founded in 1927, and the American Butter Institute, founded in 1908, are nonprofit corporations whose members are broadly representative of the cheese and butter industries. Their members include independent and cooperative manufacturers as well as assemblers, packagers, wholesalers, distributors and marketers of these products. ABI and NCI members represent over 80 percent of the butter and cheese marketed in the United States.

Our members primary purpose is to supply products to the commercial trade. However, we also have the responsibility, under the dairy price support program, to provide the processing, packaging and sales link between the farmer and the Commodity Credit Corporation. We assume this task willingly because experience has shown the importance of this link to market stability in the dairy industry. The farmer, the processor and the consumer benefit from a stable dairy industry.

Dairying is in many ways unique. This uniqueness is understood by national governments of countries with a substantial dairy industry. In these countries the nutritional benefits of milk and dairy products are recognized as an essential part of the diet. Milk production is afforded special consideration.

Each of these governments have dairy policies that are intended, among several objectives, to promote stability in the dairy industry. We are today discussing the role our government should take.

ABI and NCI have just conducted lengthy and profound reviews of various dairy policy proposals. As a result we wish to go on record as favoring a dairy policy which will utilize a commodity purchase program to bring about a supply and demand market within a five year period.

We favor this policy because it is a positive, workable program. We do not agree that a target price policy designed for field crops can work for dairying. I suppose every industry believes they are different and in need of special attention. Hearings such as this one will help sort out and establish the facts. We submit the following factors are unique to the dairy industry and not other agricultural industries and are important enough to deserve that special legislative consideration.

Specialized Inputs.—The production of milk requires specialized inputs—milk cows, buildings, machinery, and skilled management. All of these have little or no value in other agricultural uses.

Rate of Output.—Choice of rate of output is severely limited for milk production. Downward adjustments can be made rapidly by culling. Whereas, increases in output are limited to available replacement heifers, a biological lag of two to three years.

Entry or Exit.—Entering or leaving milk production involves major shifts in capital structure. Shifts among crops on a given farm require relatively little capital.

Harvesting.—Harvesting of a field crop is a single time thing, yielding a product which may be stored on the farm in anticipation of the best price. In contrast, milk is "harvested" two or three times a day, every day of the year. Milk, being perishable, must move off the farm in a rapid and orderly manner. No other product must move as rapidly or as regularly. The market-clearing value of a unit of output varies among producing units, i.e., by location and product characteristics. The value on any given day is a function of the supply available that day and the demand. The flow of milk, not the unit of milk, must be priced.

Marketing.—Processor assembly of milk is costly and must be scheduled well in advance to prevent quality deterioration or loss of saleable product.

These are major unique factors which distinguish dairying from other agricultural industries. The underlying condition that makes the dairy industry in the United States work is stability. Stability has been the goal of government policy through the "product purchase" provision of the dairy support program. We do not believe a system of "target pricing" would promote dairy stability; actually it would likely promote instability by a recurrence of distress milk, i.e., milk with no ready purchaser.

I cannot emphasize too strongly the devastating impact on the market when milk seeks its own market-clearing level. It only takes a few loads of "distress" milk to send shock waves through the market. Milk cannot be set aside to wait for the market to open up; it must be sold. At other times the shortage of milk can cause severe disruptions and distortions in the flow of milk. The product purchase program we recommend provides that measure of stability which permits the flow of milk to adjust to market needs in an orderly manner.

Without stability we could again witness the chaotic marketing conditions I saw as a youth in Iowa. Farmers' milk shipments halted by other farmers and by threat and actual bloody battles with clubs, finally resulting in loads of milk being dumped on the ground. This terrible scene was repeated in other states and Congress took action to bring back stability to the dairy industry. At first this action took the form of milk pricing, but during World War II a system of product purchasing to support prices was also developed. It was from these activities that the dairy support provision of the Agricultural Act of 1948 was formed into law.

Since 1949 the dairy support program has for the most part successfully accomplished its goal. Granted, during the current situation and in 1953 and again in 1962–65 the government removals have been excessive. These aberrations were more a matter of the program lacking flexibility to react in a responsive way to adjustments in the general economy than as a result of the policy of product purchasing.

Through all its 35 years the program has assured the consumer an adequate supply of dairy products at a reasonable price and the dairy farmer was assured a market. The undergirding principle of "product purchases" remains today and for the future the major factor needed to maintain the stability vital to the dairy industry.

It is also apparent from the following chart the support level works better if it is a "floor" rather than a "ceiling" to the market. Events also indicate the original percent of parity equivalent index is no longer relevant.

COMPARISON OF CCC ACTIVITY DURING THE TWO MOST RECENT 5 YEAR PERIODS

Crop Year April 1- March 31	Support Level		Total Production Bil. lbs.	USDA net removals (milk equivalent)	% Total Production Removal
	% parity equivalent	$/cwt. nat'l. av.			
1974/75	81	6.57	115.6	2.4	2.1
	89	7.24			
1975/76	79	7.24	116.4	0.9	0.7
	84	7.71			
Oct. 1- Sept. 30					
1976/77	81	8.26	122.2	6.9	5.6
	82	9.00			
1977/78	82	9.00	121.7	3.2	2.6
	86	9.43			
1978/79	80	9.87	122.5	1.1	0.9
	87	10.76			

Crop Year Oct. 1- Sept. 30	Support Level		Total Production Bil. lbs.	USDA net removals (milk equivalent)	% Total Production Removal
	% parity equivalent	$/cwt. nat'l. av.			
1979/80	80	11.49	127.3	8.2	6.4
	86	12.36			
1980/81	80	13.10	132.0	12.7	9.6
1981/82	75	13.49	135.0	13.8	10.2
	72.9	13.10			
1982/83	69.1	13.10	139.0	16.6	11.9
1983/84	64.9	13.10	137.4	10.4	7.6
	62.4	12.60			

Based on ASCS Commodity Fact Sheet, December 1984

The key to a workable product purchase program is to keep support prices at a level which is slightly below market-clearing prices. This will assure a measure of stability to the producer and consumer without overloading government warehouses.

Under any circumstances our domestic prices will probably be above levels at which dairy products especially cheese and butter are available for export at subsidized prices in other dairy producing countries. Under such conditions import controls are necessary to prevent flooding the U.S. market with imports. The U.S. is the largest cheese producer and one of the largest importers of cheese in the world and should not be intimidated into making unjustified changes in our present dairy import policies. World trade in dairy products is not large, less than 10 percent of the total world production. Much of this is surplus, pushed onto the world market and sold through subsidies. This is not a market the U.S. needs to develop.

Dairy price adjustments for the near future are expected to be reductions, using some type of triggering level probably based on net market removals. Therefore the cheese industry, which must store its products for several months before it is ready for the market, recommends that adjustments be made once a year on April 1. This is in time with the seasonal increase in production when an adjustment in the market is expected. Further, the announcement should be made in early March so the commercial market can react and make adjustments to minimize inventory losses.

The cheese industry also urges CCC to increase the price at which government owned cheese is sold back to the trade from 110 to 115% of the purchase price. This would encourage commercial long-hold storage. In addition to this action to encourage commercial storage of cheese the government should also state that any reduction in a sell-back price in effect when a support level decrease is announced will not be lowered for 3 months. This protects the commercial inventory of stored cheese from being devalued by lower priced government stored cheese.

In a different vein, we believe any plan that could place 200,000 dairy farmers on a list to get supplemental deficiency payments under a target pricing system would not get government out of dairying. Furthermore, the target price level would be a bone of contention, fought over and argued about within these walls and elsewhere with nobody a winner.

In conclusion we recommend that any revisions in the dairy program should retain the "product purchases" provision as the undergirding principle that will maintain the stability so essential to dairying. This feature should be coupled with a procedure that will carefully, efficiently and effectively bring about a more balanced supply and demand market in which the government is not the primary market or price leader. The purpose of the program should be to have government as the silent, non-involved partner.

STATEMENT OF DONALD A. RANDALL, EXECUTIVE VICE PRESIDENT-GENERAL COUNSEL, NATIONAL INDEPENDENT DAIRY-FOODS ASSOCIATION

The National Independent Dairy-Foods Association is a national trade association of independent proprietary dairy processors, manufacturers and distributors of fluid milk and a complete variety of dairy food products. We address some of the current issues facing the dairy industry. More importantly, we try to focus on those future issues inherent in the 1985 proposed farm legislation which will be the law for most of this 1980 decade. NIDA supports the basic principles and some of the specific provisions of the Administration's bill and also the bill offered by Chairman Helms. Each one is a partial remedy for nagging problems which hangover from the depression years of the 1930's. The market oriented provisions of this legislation should begin to weave the fabric of a new healthy agricultural society—a much stronger material to bind the small businesses producing our nation's food supplies into a real world industry with efficient economic freedom and progress. It will not be quick or easy.

The disastrous legislation of recent years haunts us, but we will not let it dictate our future. We are all familiar with multimillion dollar payments to agricorporate dairy producers who are using their diversion money to increase their herds and improve their production facilities for 1985 and thereafter. This windfall gave taxpayers a partial temporary respite, but solved nothing. The diversion program accounted for only 25 to 30 percent of the decrease in CCC purchases. Thousands of our farmers have not benefited from this scandalous 1983–1984 program—they have suffered the indignity of being taxed $.50 per hundredweight to pay other distant dairy farmers not to produce milk. Many of these large new dairy farmers had no valid business reason for increasing production of milk except for our government's misguided, over-indulgent support prices of the past seven or eight years. There must be no diversion programs, quotas, supply controls or supply management schemes.

We need to put business sense back into our government's dealings with agriculture, particularly the business of dairy farming. We have a growing economy, lowering inflation and stable employment, but we are told that we have a devastating depression in agriculture and in the dairy farming industry. If this is true, why is it so? Why have our terribly expensive farm programs failed to help our small family farmers?

One of the culprits we have identified is legislation developed by Congress in direct response to the urgings of the producer groups. We know of others: unrealistic expansion of farms and tools of production; high interest rates; lack of export opportunity; and most important, low farm products prices. Some of these culprits will be handled in the eventual course of domestic and foreign commerce and some have been handled, such as runaway interest and inflation.

Past failures to act responsibly about support prices for milk and dairy products cannot be repeated this year.

NIDA proposes a dairy support and price measure which doesn't go the extra mile of the Administration's bill. We do not propose to end the purchase program in support of dairy prices, but we advocate a balanced market with supply meeting demand. When this occurs in the future, there will be little or no CCC purchasing. We want flexibility for the Secretary to handle support prices in a responsible manner. It will limit CCC purchases. He will be directed to keep dairy support prices in the range of reasonableness. The disgraceful surpluses cannot be continued.

We offer qualified support for the Administration's proposal. NIDA is proposing to allow a manageable surplus for a number of reasons:

1. We need to continue to assure our nation an adequate supply of milk for commercial and emergency needs, but without budget straining surpluses;
2. We need the lowest reasonable support price to assure farmers' milk prices do not fall catastrophically;
3. We need to encourage as many of our producers as possible to remain in the dairy business by an underpinning of their raw product cost, while not encouraging them to over produce; and,
4. We need to assist in maintaining local production of milk and not to encourage the shift of production to large aggregate feed lot operations in distant areas.

Our proposal initially sets a range of total CCC expenditures between a minimum of $300,000,000 and a maximum of $800,000,000 to be accomplished by adjustable support prices to be set at the discretion of the Secretary; up to a maximum expenditure of $800 million in 1986; in a range of $300 to $600 million in 1987; and in a range of $300 million to $400 million in 1988. Thereafter, support prices for milk would be set by the Secretary at levels necessary to bring forth an adequate national supply of fluid milk, but in no event would the price level cause an annual rate of CCC purchases which exceed 2% of the three year moving average of total retail market sales of milk and its products. This orderly transition will move production and consumption into balance with a minimum of trauma for those dairy farmers who entered the business because Federal programs encouraged them to do so.

TOWARD A MARKET ORIENTED SYSTEM, A MORE EQUITABLE MARKETING ACT

In addition to the dairy support law changes, Congress must address some of the problems which have developed over the years in the Agricultural Marketing Agreement Act. (Agricultural Marketing Agreement Act (AMAA) of 1937, 7 USC 601, *et seq.*) From a historic viewpoint, the AMAA has served the nation satisfactorily. The act has been amended on several occasions during the past forty-seven years. However, it now needs a major overhaul predicated upon long-term equity and fairness. As you are preparing farm legislation this year to reach toward a true market oriented agriculture policy, particularly in the dairy industry, we urge you to be willing not only to examine the AMAA, but to amend it to harmonize with a market oriented support program. Congress must not create an imbalance or inequitable market situation!

We must face the reality that the AMAA was enacted during the depression years as emergency legislation. If we still have an emergency in the dairy industry today, we submit that the emergency, in part, may be caused by this legislation which was created to alleviate industry problems. Milk Marketing Orders and agreements authorized by AMAA are entrenched in our society today. Are they compatible with the goal of a market oriented industry in light of the structure of the dairy industry today? More properly stated the question is, can we have dairy markets directed by the indisputable forces of supply and demand while marketing orders regulate prices, supplies and shipments of milk? Congress must not place the Agricultural Marketing Agreement Act and the thousands of regulations issued under its authority off limits again this year. It will not be easy, but the enormity of the problem demands that Congress revise the entire system—not just price support programs. It is necessary to change the Act to make it more effective, fair and more compatible with our new market directed dairy industry. That is why we propose specific amendments to the AMAA. There are other changes that can and should be made, but we propose a start in this direction. Although we support the Administration's proposal for a study commission of the Milk Marketing Orders, it is not adequate to deal with the existing problems and those which will become critical during the next five years. From 1975 to 1985 the number of dairy processors and handlers declined from about 7,000 down to about 1,200 today. Unless some amendments are made to the AMAA to assure an equitable balance, by 1990 it will be too little and too late to help the industry.

NIDA's members are extremely concerned about the future of a market oriented dairy industry. Large interstate and super regional dairy cooperatives have immense market power. They have the power to impose over order premium prices for fluid milk and to influence market order provisions. Our smaller tax paying proprietary companies need to be assured by Congress that they will receive fair and equitable treatment under new laws and changed market conditions. They must not be victimized by imprudent laws and regulations.

I. PROPOSED AMAA AMENDMENT

Our first proposal would amend the statement of purposes and public interest section of the AMAA. It corrects a basic deficiency in the Agricultural Marketing Agreement Act and should clear up considerable confusion. This amendment is compatible with the market oriented intent of proposed 1985 farm legislation.

Our proposed amendment clarifies the public interest, and thereby the consumer interest in agricultural marketing orders and agreements. The degree of public interest which the Secretary of Agriculture has been required to consider in approving and issuing hundreds of marketing orders or agreements, was thrown in doubt by the Supreme Court's decision in *Block* v. *Community Nutrition Institute, et al,* No. 83-458, (June 4, 1984).

In that case, the Court decided that consumers of dairy products had only an indirect and derivative interest in the regulation of handlers of milk under the Agricultural Marketing Act, and thereby have no standing to seek judicial review of the Milk Marketing Orders.

The purpose of this amendment is not to grant authority to any or all consumers, whether affected or not, to petition or intervene in 15A proceedings under the Act, or to cause regulatory impasse. The intention is to require the Secretary to make clear findings that any proposed order or amendment is in the public interest. He must justify the use of the extreme power granted under the Act that such use, specifically in each case, is beneficial to the consumers of the products regulated, as well as beneficial to the farmers who produce them.

It has been demonstrated many times that market orders which restrict production, prorate or allocate production of agricultural commodities may not be in the public interest. Provisions of these orders are prepared and largely determined by the managers of producer (cooperative) organizations, and are not necessarily in the best interests of individual producers. For example, independent dairy farmers are almost totally powerless to influence any of the hundreds of provisions which regulate the handling of their milk. Consumers *are* totally powerless to affect any of the Milk Marketing Orders which determine the prices they shall pay and the types of products they are offered. Mr. Chairman, consumers deserve a more definite statement of their interests.

II. PROPOSED AMAA AMENDMENT

Our second proposed amendment to the AMAA would direct full disclosure to members of cooperatives under the Act, of the gross sales receipts for their milk and all amounts withheld, deducted or charged against their milk checks.

Although practices of disclosure vary with cooperative associations depending upon local laws and regulations and the degree of involvement of members, there is no uniform requirement for regularly informing members of how their withheld funds are being utilized. Each farmer should be aware of the manufacturing and processing costs being assessed by his cooperative. A cooperative member is entitled to know how much it is costing him to belong to a dairy cooperative. This is vitally important where producers are receiving less than the uniform federal order price specified by the Act. Uniform prices to producers are established under Section 8c(5)(B) which provides for the fixing of "uniform" prices to be paid to all producers or associations of producers "irrespective of the uses made of such milk by the individual handler to whom it is delivered." However, under Section 8c(5)(F), producers are paid by their cooperatives according to the terms of their contracts with their cooperatives. Of course, various adjustments are allowed in the Act for (a) volume, market and production differentials customarily applied by handlers, (b) grade and quality of milk, (c) locations of delivery, and (d) seasonal adjustments. Yet it appears to be the common practice of cooperatives to pay their members less than the Federal order prices in order to cover their costs for operating extensive processing facilities.

The need for this amendment at this time results from the major financial crises which face many of the nation's dairy cooperatives. Unwise investments in processing and manufacturing plants have caused financial drains on members' milk receipts. Major integrated cooperatives such as Agri-Mark with 3,200 members in New England and Dairymen, Inc. with 7,700 members in the Southeast have unneeded plants which must be closed. These facilities were built and acquired with borrowed money from banks for cooperatives and the equity of members. The cash flow of members' milk marketings is the real collateral pledged to secure these overbuilt facilities. In New York, NEDCO is experiencing the financial problems of excessive plant investment which can't be supported by a dwindling membership and cash flow. New York States' Dairylea has had financial problems for several years, caused by brick and mortar investments. The problem is so severe that some producer organizations have suggested an amendment of the AMAA to receive reimbursement from the market pools for the cost of operation of these cooperative plants under the guise of market wide balancing services. It is believed that an informed cooperative membership could have made the difference in management decisions to acquire questionable, and subsequently unneeded processing facilities, with the resultant pledging of their milk receipts. If member farmers had known how their money was being spent, they probably would not have allowed unwise processing investments.

Members should be continuously informed about the costs of marketing through a cooperative, so they can decide whether to renew their cooperative membership or become an independent producer.

III. PROPOSED AMAA AMENDMENT

Our third proposed amendment to the AMAA would help to achieve equity in payments to producers of fluid milk. It also would help equalize competition between cooperative processors and proprietary handlers. We would propose that where minimum prices to producers are fixed by orders and where any cooperative association subject to an order competes with any handler, such cooperative association shall not pay less than the federal order prices to its members for the sale of their milk or products. Payments shall be by cash and not in the form of promises to pay, or other evidence of indebtedness, or stock.

The purpose of market orders is to bring about orderly marketing for milk and other agricultural commodities. Milk Marketing Orders address these problems in the dairy industry by establishing administered minimum prices for both producers and handlers in defined geographic areas. The three basic elements of market orders are set forth in Sections 8c(5)(A)-(C) of the AMAA: uniform *handler prices,* uniform producer prices and producer settlement funds.

"The very foundation of the Act is to provide uniform prices . . . subject only to specifically enumerated adjustments." *Dairylea Cooperative, Inc.* vs. *Butz,* 504 F2d 80, 87 (2 Cir. 1974). All major cases interpreting the legislative history of the AMAA make it clear that the backbone of the market order authority is uniformity of prices to be paid by handlers and received by producers, subject only to the enumerated adjustments. *Fairmount Foods Co.* vs. *Hardin,* 442 F2d 762, 766 (D.C. Cir. 1971); *Zuber* vs. *Allen,* 396 US 168 (1969).

Section 8c(5)(F) currently allows producers to be paid less than the uniform minimum prices by their cooperatives. Cooperatives receive uniform payments from handlers or the pool, and pay their producers according to contracts. This procedure does not conform to the basic purpose of the AMAA.

Our amendment proposal does not require uniformity of prices as received between cooperative members and nonmember producers within the same marketing order, but it should help to eliminate the inequity between competing cooperative handlers and noncooperative handlers. This inequity has been a major factor in the decline in independent milk handlers from about 7,000 in the 1970's to only about 1,200 in 1984.

Uniform prices are essential to the handlers in the orders. Noncooperative handlers often compete at a disadvantage as they are paying the minimum uniform prices for the largest cost factor in their business—fluid milk—while competing against the processing plants of cooperatives who pay below federal order price for fluid milk for the same chain stores, convenience stores or other fluid milk accounts.

The Amendment would have a positive benefit of requiring more prudent investment of cooperative members' funds in plants and in their operation. These associations can still use equity contributions, dues and assessments. However, they must be obtained directly from the members, and not obtained by reducing members' prices to subsidize marginal processing plant operations.

It is estimated that most of the largest cooperatives with wholesale and retail sales have underpaid their members during the past several years. This is especially true for most of the large Eastern and Southeastern cooperatives.

IV. PROPOSED AMAA AMENDMENT

Our fourth proposed amendment to the AMAA would make block voting by producer associations for their members on market orders and amendments optional with the Secretary of Agriculture. Additionally, it would require an adequate sample poll of producers.

Block voting distorts the democratic process written into the Acts by Congress, such as Capper-Volstead, which prescribed one vote per member, and the AMAA, which sets forth the votes needed to issue orders (8c)(8)(A)&(B). The order process should not be left to block voting which allows cooperative managers to substitute their determinations of the questions. It disenfranchises members. It concentrates power in the hands of a few officers.

Block voting discriminates against independent farmers and independent handlers. In certain market areas, such as Number 2 for New York and New Jersey, approximately 50 percent of all producers are noncooperative members. Each one of them must vote individually on orders and amendments, and no handler may represent them at hearings and vote for them. Individual farmers, whether cooperative or noncooperative, are not consulted on order changes. Frequently, they have no knowledge of the proceedings, and usually cannot afford to travel to hearings and vote. They cannot afford market order hearing representation. Large cooperatives and their federations are represented and block vote for members.

In many of the Federal market orders today, a single cooperative will represent in excess of 50% of the producers, and often in excess of two-thirds. USDA will record votes required by the statute by a single phone call or letter to cooperative officers.

V. PROPOSED AMAA AMENDMENT

Our fifth proposed amendment to the AMAA would be added to the existing anti-barrier provision of Section 8c(5)(G) of the Act which prevents market orders from prohibiting or limiting the sale of milk or its products as between market order areas. This new amendment is needed to eliminate other barriers that have been erected during the past fifty years.

This broad amendment would have a far reaching effect on the regulations in market orders. It would make milk more marketable and probably change the entire order system. It could create an entirely new competitive market for milk. It could initially lower the cost of milk, particularly Class I milk. Class I milk is arbitrarily priced higher than manufacturing milk even though it is usually of the same quality. Less than 50% of the Nation's milk is used in Class I fluid products, and the remainder is sold at lower prices after being diverted to manufacturing plants. This amendment would bar cooperatived federations from using pooling agreements or options or other schemes to prevent milk from moving at market prices between milk markets and other areas.

VI. PROPOSED AMENDMENT

Finally, NIDA supports a long overdue amendment to the Capper-Volstead Act (7 USC 292).

The Capper-Volstead Act of 1922 is the most significant law enacted by Congress to benefit cooperative organizations. It fulfilled a need to give a partial exemption from antitrust enforcement to associations of farmers, growers, etc., to organize either as noncorporate or corporate organizations, and to function. It may be said that the entire modern cooperative portion of agriculture is based on the rights granted in this Act (7 USC 291-2).

In granting this immunity from prosecution, Congress intended to equalize the bargaining, marketing and processing positions of farmers with the positions of large interstate food processors. During the legislative discussions, the question of monopoly and market power abuse of these rights were considered. The majority eventually agreed that due to the independence of farmers and the diverse and fragmented industry, there was little to fear from the large types of powerful consolidations that had occurred in other businesses—absent antitrust enforcement.

Substantial market power and cooperative monopolies have grown in agriculture, particularly in fruits, vegetables and in dairy. Congress included Section 2 of the Act (7 USC 292) for the purpose of checking any abuses of market power by cooperatives or their use of monopoly power by action of the Secretary of Agriculture. Some investigations have been instigated by the Secretary on complaints from consumers and industry members, but the Secretary has never used his authority to hold hearings, issue orders and enforce them, or to find and end any undue price enhancement.

Pursuant to 7 USC 292, the Secretary, exclusively, may issue a complaint when he has reason to believe any association (or federation) monopolizes or restrains trade to the extent of undue price enhancement, hold hearings, issue a cease and desist order, and seek enforcement in a U.S. District Court. Our proposed amendment would give joint or concurrent jurisdiction, or duty of investigations, hearings, orders and enforcement to the U.S. Attorney General.

The abuses of Capper-Volstead chartered cooperatives in the dairy industry and in the California-Arizona naval oranges and lemon industry are well documented by the large number of antitrust enforcement actions brought against all of the large cooperatives and their federations by the Justice Department, Federal Trade Commission and private litigants. Also, the *National Commission for Review of Antitrust Laws and Procedures* documented the unlawful uses of market power and monopoly in agriculture and recommended legislation. This amendment is vitally important as we move to a market oriented dairy industry.

This Amendment would not reduce any authority or immunity now held by cooperatives. It would not subject them to any new laws; would not interfere with their formation and operation; and would not prevent them from acquiring market power or from merging into monopolies. It would, however, introduce permissible enforcement by the U.S. Attorney General where prices were unduly enhanced. The Department of Justice would have no greater authority than the Secretary of Agriculture.

This Amendment is needed because the Secretary has neither the expertise or the resources to deal with antitrust issues. He is charged by Congress with promoting cooperatives in many other programs. The fifty year record shows that the Secretary does not have the willingness to examine anticompetitive and trade restraining practices of these giant corporate cooperatives. The Secretary recognizes his constituency to be farmers and their organizations. The U.S. Attorney General has no charge to favor one economic group over another. He has a broader constituency—the American public.

NIDA urges the committee to carefully study our proposals and to incorporate them into the 1985 farm legislation.

Thank you Mr. Chairman, I will be happy to answer any questions.

MARCH 25 HEARING—FEED GRAINS

Statement of Hon. Edward Zorinsky, U.S. Senator From Nebraska

Mr. Chairman, feed grains represent a significant portion of total U.S. exports, as well as a fundamental link in the chain that provides food for American consumers. Feed grain production is the economic cornerstone not only of my State of Nebraska, but of numerous other States as well. For these reasons, it is incumbent upon all Americans to realize that profitable and stable feed grain production is in the best interest of the Nation.

Feed grain production is inexorably linked to the livestock industry. My State, and many other States similarly situated, produce both feed grains and livestock in great quantity. Federal farm programs must be fashioned in such a manner as to provide a fair and reasonable return to the grain producer without burdening the livestock producer with intolerable costs for feed.

These goals are not in conflict. Last Thursday, we heard testimony from livestock producers and agricultural economists who were almost unanimous in acknowledging that low grain prices lead to low meat prices.

Let us keep that testimony in mind in the course of our deliberations. The grain farmer is not seeking windfall profits, and the livestock producer does not want the grain farmer to sell at a loss. In short, both the feed grain producer and the livestock feeder appreciate that their survival is contingent upon mutual profitability.

As Congress considers the 1985 farm bill, we have three options—we can continue to have expensive farm programs and cheap food; we can bankrupt the farm economy and have cheap food for awhile; or we can have a cost-effective farm program that will ensure an ample supply of reasonably and fairly priced food.

In my judgment, consumers must realize that unless they begin to pay a somewhat larger share of the cost of producing food, bargain prices and abundant supplies are destined to become a thing of the past as control of agricultural production falls into fewer and fewer hands.

Just as a great quantity of our feed grains is marketed in the form of cattle, pigs, and other livestock, so too can feed grains be exported. The KOBI beef lobby must be put on notice that we will no longer tolerate our unfavorable balance of trade with Japan. In similar fashion, we must consider whether further limits should be placed on the importation of Argentine and Australian beef, and Canadian pork.

I look forward to reviewing the testimony of today's witnesses.

STATEMENT OF VAREL BAILEY, PRESIDENT, THE NATIONAL CORN GROWERS ASSOCIATION

Mr. Chairman and committee members: I am Varel Bailey, the farmer-president of the National Corn Growers Association [NCGA], and a corn and hog farmer from Anita, Iowa. The members of our organization appreciate having the opportunity of testifying today before you and your committee on the needed provisions and programs for the 1985 farm bill. As many of you may know, our organization represents corn farmers in 16 affiliated member States: Colorado, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, Missouri, Nebraska, North Carolina, Ohio, Pennsylvania, Virginia and Wisconsin. In addition, there are individual corn grower members in all 48 continental States. Accompanying me today is Jerry Franz, a vice president of our organization and chairman of the NCGA legislative affairs committee, who grows corn, wheat and soybeans in Wisconsin.

Our organization has long supported the concept that profitability for corn production must come from the marketplace—and not from growing corn for Government programs. We continue to support market oriented farm programs; farm programs that are designed and supported by Government action to compete in the international marketplace for grains. Having presented this introductory statement about the basic philosophy of the National Corn Growers Association, I would like to simply submit our prepared statement for the record with your permission, and summarize my statement and attempt to answer any questions you and the other committee members may have.

Our present farm legislation has evolved from the necessity of providing the American people with a stable and plentiful supply of food and fiber. In keeping with this goal, our present agricultural system has been successful beyond any imagination. No other agricultural system in the world has developed like our system since the inception of U.S. agricultural legislation.

In this regard, we would like to submit to you and the members of the committee a synopsis of programs and provisions for the 1985 farm bill that are a natural extension of the general resolutions adopted at the 1984 annual convention of the National Corn Growers Association. We will come back to several programs and provisions in our synopsis of farm programs and provisions. If the following measures were to be encompassed in the 1985 farm bill, we are convinced that U.S. grain agriculture would become market oriented on the basis of competitive prices in the export market as well as providing the necessary margin of income support to farmers during the near depression-like crisis that grain farmers are experiencing in the United States:

SYNOPSIS OF PROGRAMS AND PROVISIONS FOR THE 1985 FARM BILL

1. *Target Price.*—(A) Freeze at $3.18 per bushel for 3 years; and (B) after 3 years, adjusted no more than one-half of the loan rate adjustment.
2. *Loan Rate.*—(A) Freeze at $2.55 for 3 years; (B) after 3 years, 100 percent of the past 5 years average (deleting high and low years) with no more than a 5 percent adjustment per year; (C) to be changed immediately to a "market oriented" loan rate with payback based on a "5-month State average farmgate price" or the maximum of the loan rate and not subject to the payment limitation; and (D) loan becomes a recourse loan with possible extensions and storage payments.
3. *Payment Limitation.*—(A) Opposes any limitation; and (B) in the event of a limitation on payments, $50,000 payment limitation applies only to deficiency payments as defined as difference between the target and the loan (or market price if it is greater than the loan).
4. *Conservation Acreage Reserve.*—(A) Long-term (5 to 10 years); (B) set by a formula based on excessive production capacity; and (C) participation on a bid basis and targeted toward fragile lands
5. *Reserve.*—(A) Phase out to a minimum level of 500 million bushels; (B) maturing farmer owned reserve inventory will be phased into P.L. 480 program; and (C) CCC acquired inventory utilized as stocks for export incentives and as an equalizer to the value of the U.S. dollar.
6. *Export Expansion.*—(A) Increased funding for USDA Foreign Agricultural Service; (B) appropriations for the Export Revolving Fund; (C) P.L. 480 programming: double the appropriations immediately with the increase going into both title II and III; (D) increase appropriations for both direct and guaranteed export credit programs; and (E) if it is U.S. policy to provide for special subsidies to the U.S. maritime industry, then provide direct appropriations for the subsidy (include in the budget of the Department of Defense) to prevent the reduction of the amount of monies available to feed the hungry—and starving—people in developing countries.

Central to a sound farm bill is the maintenance of an investment environment that insures adequate resources devoted to production agriculture. Target prices have provided agriculture a safeguard against short-term capital fluctuation in a long-term capital investment commitment. The resources devoted to food production are a direct function of the marginal expectation of profit. Target prices provide the basis for long-term agricultural policy. They provide the capitalization base (asset valuations) for production agriculture. They directly translate into land and asset values, which in turn provide collateral for the securing of production credit needs. As an investment for society, target prices are an essential ingredient in our ability to produce food at the world's lowest cost as a percent of disposable income.

The implication that target prices are not essential has been one cause for the precipitous decline in land values across the country. Perpetuation of this idea will compound U.S. agriculture's credit crisis in an exponential fashion. A return of target prices to the level prior to the 1984 target price freeze is paramount to the preservation of a viable U.S. agricultural system in the future.

Agriculture is vulnerable to the shims of Mother Nature and the international marketplace. Domestic/U.S. demand for food is relatively inelastic. A very small shortage or excess in the marketplace can cause very wide swings in prices. Such movements increase the risks in the vertical food chain, thereby increasing the price of food to the consumer. Over the last 50 years, the commodity loan mechanism has not only provided critical short-term credit requirements to production agriculture, it has also served the dual function of providing a steady flow of food products and lowered the cost of food by reducing the risks of wild price gyrations for farmers and processors alike. It is surely in the best interest of consumers, processors and farmers to freeze commodity loan prices in these violent worldwide economic fluctuations.

However, there are three major changes that make the old commodity loan mechanism obsolete: (1) the opening of international trade in the early 1970's; (2) the floating of world currencies values; and, (3) the sharp rise in international trade protectionism. All of these three factors are external to, and not subject to, influence from conventional U.S. agricultural policy. These three external factors require innovative modification of the traditional U.S. commodity loan concept.

The internationalization of the U.S. agricultural markets has been nothing short of explosive when considered in the history of worldwide commercial trade. World agricultural trade has increased from $26.8 billion in 1955 to $251.3 billion in 1980. As a nation, we have committed ourselves to compete in this competitive environment as a way to raise our national standard of living and utilize our God-given natural resources. The problem is that this internationalization of trade plus our dominance in the world marketplace has resulted in other nations developing excess capacity based on the U.S. fixed commodity loan rates. Other competing countries simply sell for a few cents per bushel lower than the equivalent fob value of the U.S. loan rate to capture our markets. These foreign countries know too that the U.S. will simply store the excess production that does not move into the market. These foreign countries now know also that the United States, under pressures from mounting supplies of grain, will set aside land to lower our production by the amount of the increase in foreign grain production. If we continue to flow this pattern in the future, we will shut down the one U.S. industry that has a clear comparative economic advantage in the world and deny our citizens the benefits of our efficient agricultural production.

The internationalization of the U.S. dollar—along with it serving as the world reserve currency—may have been heralded as modernization of world monetary policy. But this international monetary system has caused distortions in international commercial trade. The worst of these distortions is that provided incentives to foreign countries to produce agricultural products based on the value of the U.S. dollar, the German mark or the Japanese yen rather than on the basis of real demand for such production. Because of these false signals, these distortions created an illusion of euphoria in the 1970's and a real disaster in the 1980's. The capitalization base for U.S. agriculture in the 1970's is now threatened with mass liquidation. This critical liquidation of the U.S. agricultural capital base is based not on signals of demand for agricultural products, but rather on false signals of current relative currency values.

Political interruptions in the export flow of U.S. agricultural products, plus the inherent sovereign desire for food self-sufficiency around the world, have built a worldwide system of increasing domestic protectionism from the world marketplace. This lowers the standard of living of all citizens of the world community; protectionism and barriers to trade against the most efficient production areas raise the cost of agricultural products to everyone. International negotiations to alleviate these trade barriers over the last 20 years have basically been offset by embargoes and other political actions by the U.S. Government. It is now obvious that cost to the treasuries of some foreign countries is the force that will reduce such foreign barriers to U.S. exports. Nevertheless, some mechanism must be devised to allow our products to always be available to the world marketplace so that U.S. farmers can respond to the true demand of the world marketplace.

Of all the acceptable alternatives available in this market oriented environment, the market oriented loan mechanism is the best alternative. Such a loan mechanism allows U.S. farmers to be knowledgeable of the loan value in advance for the most efficient production management. The payback provision is based on the marketplace. Any price lower than the initial loan rate is a measure of the accumulated effects of currency exchange rates and protectionism as practiced now by our competitors in the world marketplace. Without this mechanism, we jeopardize the long-term ability of the U.S. farmers to produce food. We cannot allow foreign countries to shut down the most efficient agricultural plant in the world. U.S. farmers must not bear the cost of agricultural policies decided by foreign governments, and their national treasury expenditures in sustaining such policies.

Upon closer examination of the market oriented commodity loan mechanism, there are distinctly additional advantages that would accrue to U.S. farmers and the U.S. Government:

1. No accumulation of grain stocks, and substantial reductions in Government outlays for storage programs: (A) elimination of storage payments; (B) elimination of interest on storage payments; (C) reduced Government borrowing to finance such programs; and (D) reduced Government lending impact on financial markets.
2. In the absence of multi-year grain storage, market oriented loan rates will move grain from the harvest to the market without an appreciable deterioration in grain quality.
3. On the basis of price and quality competitiveness, the United States would again become the preferred supplier to the world market.
4. The market oriented loan rate would not provide a fixed and clear price signal for competitor countries to use as a price target for export marketing.
5. Discourage increased acreage into grain production in foreign countries inasmuch as the level of the market oriented loan rate would adjust to changing supply and demand situations.
6. Would increase the cost of protectionism in foreign countries and increase the expense for export subsidies offered by foreign countries inasmuch as U.S. farmers would have a fixed measure of income support although the market oriented loan rate would adjust to meet world price competition.
7. Eliminate the rising pressures in the United States for direct export subsidies and expansion of the U.S. export credit programs inasmuch as the U.S. market oriented loan rate would permit U.S. prices to meet world price competition.
8. Inasmuch as the market oriented loan rates would, through the "payback" provision provide income support to farmers, the applicability of cargo preference requirements would be restricted simply to P.L. 480 export programs.
9. The market oriented loan rate would be a domestic price support program for farmers, eliminating any foreign claims that U.S. grain exports are in fact receiving direct export subsidies.
10. The market oriented loan rate would permit both domestic consumers and foreign consumers to compete for U.S. grain at the same price levels.
11. Substantial reduction in administrative cost along with reduced export program development and supervision by the U.S. Government inasmuch as the market oriented loan rate mechanism would permit for price to be the most competitive feature of U.S. grains for export.

Within the next several weeks, our organization will have obtained an independent analysis of either the cost of or the exposure to the federal budget for such a multi-year farm bill. Preliminary analysis show that the market oriented loan rate mechanism would accrue substantial savings to the U.S. Treasury without any appreciable increase in U.S. outlays to sustain such a program. At that time, we will be pleased to share the results of that independent cost-saving analysis for our proposed farm bill with you, Mr. Chairman, and the members of this committee.

We appreciate having this opportunity to appear before you today, and will attempt to answer any questions that you may have about our testimony.

STATEMENT OF JACK GRAY, RALSTON, OK

My name is Jack Gray, I live at Ralston, Oklahoma, my telephone number is 918-738-4122.

Our farm and dairy is what we would call a family farm operation. I have 3 children, all grown. They work for me and my wife. The two boys are 32 and 27 years of age, they have always farmed with us, both are married. We also have a 37 year old daughter that has come back to the farm. She works in the dairy. Our farming operation is composed of 1,300 acres in crops, 2,000 acres of grass and a herd of dairy cattle. We milk over 100 head.

Since 1979 we have not been able to show a profit with the exception of 1980. Low grain prices has been the downfall, also we had some drought years like 1984. In 1983 something hit our wheat and our test wasn't any good.

In 1984 we had a gross income of over $400,000, but after taking our expenses from it, my wife and I had a little over $2,000 left for our work for the year, with no depreciation taken. How do we get on food stamps?

After getting this income tax from our accountant I went to see our F.H.A. County Supervisor, Mr. Jimmie Stormont on February 19, 1985. He wrote me this letter:

After careful consideration, we were unable to take favorable action on your request for special debt set-aside for Farmers Home Administration (FmHA) services. The specific reason for our decision is:

In working your annual and/or typical plan, the cash flow projection indicates that you can not achieve a positive cash flow during the next five years, and no portion of the debt will be eligible for set-aside.

Then I talked with my bankers about getting a Government Guaranteed Loan. Both told me that they hadn't received anything from the government on these loans. One complained that it took from 4 to 6 months to get anything done. So that is that.

Now to get to the business at hand.

It should be clear enough by this time to all who have studied the present plight of the farm industry that one of four things must soon happen:

1. The price of farm products must be increased arbitrarily.
2. The dollar must be deflated, causing a rise in all commodities including farm products.
3. Farm debts must be written down to the ability of the farmer to pay.
4. Or the holders of farm mortgages must take the farms given as security for those mortgages.

With farm prices what they now are, and have been for the last year, the farm industry cannot pay taxes, interest or indebtedness, upkeep of equipment, maintenance of improvements, and make necessary replacements.

Ninety percent of our farm troubles is bound up in two words.

"LOW PRICES"

Sounds like today doesn't it? This was written by Mr. Clarence Roberts in December, 1932.

Today for the American farmer it is one word profit. In this testimony that I give today the underlying theme is, how does the farmer realize a profit. We must have a profit to survive. Where do we get this profit? It has to come from the people that we call consumers. It must come from them in one of two ways, either through taxation or from their billfold. It is that simple. There is no other solution. That is this Committees problem. Now do you have the guts to do it?

This Committee should be able to walk through that door and put all their petty differences aside and come up with an answer. This farm bill believe it or not is one of the most important issues to come before this Congress, more important that the budget or the deficit spending. Let me stress just one more time, this farm crisis will be the most important issue that will come before this Congress.

Farming is the basic industry of Oklahoma, the United States, and the World. The choice is clear. We must support our farmers and help our farmers, or we stop eating.

Sixty years ago jobs were plentiful, movies were silent, flappers were noisy, business boomed, the Stock Market went crazy and U.S. farmers went broke. Now there are lots of jobs, movies are talking, flappers are still noisy, the plastic card business is booming and the U.S. farmers are still going broke. Plus the domino theory is starting in.

Enough of this rattling, lets get down to testifying, because I just have 5 minutes to testify. Boy, I sure hope you listen.

Most of my testimony will be on the need for a High Loan Program to stabilize American agriculture.

As I have said before, this Farm Bill is more important to this nation as any bill that will come before this Congress.

If the nation's farmers go under, so shall the nation.

We are now seeing the effects of the last 11 years of our farm programs.

That this Congress must come up with a Bill that the farmer has a chance to make a profit.

The bottom line of the Farm Bill must have one word—PROFIT.

I hope you have a lot of questions.

Thank you.

HIGH LOAN

The American farmers cannot do it. They cannot buy inputs on a fixed or steadily rising market and sell their crops on a continuously fluctuating and totally undependable world market. We need wait no longer, the handwriting is on the wall.

No problem worthy of the name has an obvious and easy solution. If American agriculture is to survive it must face up to some hard facts and completely abandon some highly cherished and long held beliefs: (1) That a "free agricultural market" works better than a controlled one. False. (2) That we must get the government out of agriculture. False. (3) That "market oriented" philosophies must be pushed and that they will make things better for the farmers and for all who depend upon their success for their own. False. (4) We're feeding a hungry world. False. The vast overwhelming proportion of what we sell overseas isn't going to the hungry, it's going to Japan, China, Russia, the Common Market nations and others with the money to pay, not the starving millions in the barrios outside of Mexico City and Caracas and Africa and southeast Asia. If our nation wants to feed the hungry world or help on the balance of payments or if it wants to punish Russia, let the nation as a whole as represented by the federal government share in the cost equally. Why should 800,000 farmers who produce 98 percent of America's crops bear the burden alone and go broke in the process dragging at least 35 million other people, and probably the whole nation, behind them?

The foregoing are just a few of the currently held ideas that must be abandoned. These ideas are not just held by Congress or by the present Administration or by the previous Administration, my friends they are held by many, many of YOU. They are held by the large majority of our farm organizations. They are held by our "thinkers" and by our economists. Please read the following sentence carefully:

Nothing is going to get better for the American farmers on a permanent or dependable basis until he abandons the free market concept and goes back to a sufficiently high federal government support program that will make it possible for him to be assured of a profit if he makes a good crop.

This probably will mean acreage controls on major crops and it will mean a greatly reduced emphasis on the export market. Who cares about exports if the individual farmer cannot make a profit on them? I'll tell you who cares . . . That tiny minority of people who have already gotten rich beyond their wildest dreams buying commodities from American farmers and selling them overseas at a profit. It is not a high priority to these middlemen that the American farmer makes a profit. It is of top priority, naturally, that they make a profit.

Labor unions have considerable control over what they receive for the fruits of their work through the power of collective bargaining. Industry has considerable control over what it receives for the fruits of its labors through behind the scenes price fixing agreements, the ability to shut down its factories, and the ability thereby to tremendously reduce its cost of production.

Only the farmer, we repeat, only the farmer, has no choice, and no control.

He must continue to produce, he must pay the prices demanded for his inputs, and he then must sell for what the free and constantly fluctuating market will let him have.

That we should have to learn this lesson all over again after having learned it in the hardest possible way in the Great Depression is mind boggling. We had nothing else but a "fee market" until legislation was passed in 1933 to bring stability and prosperity back to American farmers. It had not worked (the free market), we had a constant boom and bust farm economy and, beginning in 1921, a serious farm depression that contributed heavily to dragging the entire nation into the most serious depression in history beginning in 1929.

For 40 years, we repeat because it is of enormous important, we had 40 years of high and strong federal government farm support programs from 1933 to 1973. In

1973 we made a serious wrong turn. We passed a new farm law that forced the farmer to depend primarily upon the free market for his profit and it was based primarily upon the assumption that the export market would provide us with some sort of OPEC cartel (OPEC cartel, that is when farm prices skyrocketed, diesel fuel went from 25 cents to over a dollar per gallon, farm implements went 4 times higher, repairs 3 to 4 times higher, but our commodity prices fell.) on food that would allow us to dictate prices for our farm produce, solve what few problems were inherent in farming under a government program, and allow us to grow fence row to fence row on all crops as we saw fit. Utopia. In 1974 and 1975 our long time friends and buddies the Russians bought every bushel of grain we had, our cotton crops were disasters and farm prices shot up. It works! It works! The millennium is here. For two years on sheer coincidences. Since then it has been steadily going down hill. Oh sure, some people have made some money some years. All you have to do is make a good crop during a year when everybody else makes a bad one. All our farmers know that if you're smart you know how to do that. . . .

But leaving the sarcasm of the last two sentences behind, it has now been 11 years. We have re-passed essentially the same farm law twice more since 1973, in 1977 and lately in 1981. Eleven years of a disastrous test has surely proven to the majority of U.S. farmers that the free market concept simply doesn't work.

The nation's agriculture is hovering on the brink of total collapse, agribusiness will go down with it, small towns, small businesses, dealers, distributors, 35 million people directly or indirectly drawing their livelihood from it will go with it, and perhaps, as in 1929, the whole nation. At the very least a prosperous U.S. agriculture and agribusiness would provide an increased tax base that would help with the hemorrhaging budget deficit. A strong, federal supported farm program would probably pay rather than cost and in several ways.

Fully agreed, now and at the time, the Carter embargo was a stupid and devastating mistake. So was the one applied by Ford, the one applied by Nixon and the one threatened by Reagan that hangs over the market like a sword. But all of that and the crop in Brazil and the crop in Argentina and the crop in Canada and the crop in Australia and the crop in China and the manipulations of middlemen and the emergence of many, many strong agricultural economies yet to come, and even the increase in our own production expertise make the dependence of our farmers on the free market a bad joke.

We will cover now the main arguments for sticking with the highly touted "market oriented approach" which many do against the day "when our ship will come in and we will reach at last the pot of gold at the end of the rainbow."

(1) That we don't really have a free market anyway, that the government keeps poking its nose into the situation via embargoes so that we never really get to find out if it will work.

Answer. They are not going to stop doing this. A grain embargo is about the only way, short of nuclear war, that we have any hope of hurting the Russians and accomplishing certain other international goals and you can just count on government interference with the international farm market. Any beyond this during the eleven years of free market farm programs there have been very long stretches of time when we had no embargoes, but other factors affected the world market price. Of course other countries are going to compete with us for foreign agricultural markets and when they do it's going to lower the price our farmers are able to receive. Anytime there is substantial money to be made we are naive to believe that we are the only ones smart enough to see the opportunity and go for it. The international export market, even the "free" domestic market for agricultural products in volatile and undependable and no other major country in the world insists that its individual farmers try to handle it alone without government help. So to those of you who say "we don't really have a free market" we can only say. . . . "Do you want to take another 11 years to prove to yourselves that we're wrong about that, too?"

(2) That to return to a high government support program is a step backward.

Answer. Hogwash. Of course you can go back. What do you do when you drive 100 miles in the wrong direction in your automobile because you took a wrong turn 100 miles back? You curse a lot, but you retrace your path, take the opposite turn and try to put the mistake out of your mind. Have you ever done that?

(3) That there might not be a place in a high government support program for a quite a few businessmen, commodity brokers, shippers, commodity exchanges, international grain companies and others.

Answer. It's time to start throwing people out of the lifeboat. American agriculture starts and ends with farmers. That's spelled f-a-r-m-e-r-s. Everybody else has just got to find themselves a place. If American agriculture goes down everybody connected with it goes down too. The situation that exists now in American agriculture is deadly, perhaps, fatally, serious. Priorities must be established. If you don't want to go bankrupt or have to stop farming when you don't want to have to stop farming you may very well have to decide whom you like the best . . . yourself and your family or some farm commodity trading sharpie.

This may sound tough, but we're tired of farmers telling us and each other that there just doesn't seem to be any way out. There is a way out, there probably are several ways out, but they all call for strong federal government coordinated farm programs. During the 40 years of relative stability the American farmer had between 1933 and 1973 the 90 percent of parity loan program seemed to work the best for the longest. There were other variations, of course.

It was not an expensive program and it worked very well until Ezra Taft Benson, secretary of agriculture under Eisenhower, sabotaged it in about six different ways including a refusal to sell our surplus farm commodities overseas causing huge accumulations which were widely reported as "overhanging" and "depressing" the market. But this wasn't actually causing the farmer any great grief. He had his loan program and if Benson wanted the government farm program screwed up it was up to the farmers, their farm organizations, Congress and the administration to stop him. They didn't. After that we began to move into direct payment, then limitations on payment, great predictable public outcry and, finally, the move in 1973 into the "free market". If you want to know how we got into this mess that is how.

We are not married to a 90 percent of parity CCC loan concept. It does seem to us that, properly managed, this is a good and proven approach which would allow us to decide how must of each crop we needed for both domestic and export markets and set allotments, yes allotments, to fine tune the amount we want to product. If the government wants to go after the lion's share of the world export market fine, increase the allotments, and our farmers will be glad to grow the extra crops. Just as long as they have the security of being able to sell them at a high, supported, profitable rate. We might not be able to grow quite as much of certain crops but at least we'd make a profit on what we did grow if we made a good crop. We have got to get our farmers back on a sound financial basis. It is imperative.

Under this approach we would put our crops in the CCC loan if the price at harvest time was too low to provide a profit, and at a low interest rate of 6 percent or less and leave them there until the price went up. If the price went up we'd take them out and sell them at a profit. If the price for commodities still did not go up, after, say, 6 to 18 months off the market, we'd let the government have the collateral crops to sell for what it could get overseas in order to cut its losses, feed the hungry world, punish the Russians, do whatever it felt best for the general welfare, as American farmers would be adequately protected. During the many years that we used this approach the government actually made money on the deal much of the time. They still do on the tobacco program.

As we said earlier we are not married to a 90 percent of parity program. If some bright, young sport has a better idea that will work and provide American farmers with a stable, adequately high, government backed market for their commodities, our minds are open. But no dependably successful program will hinge on the free market or on the export market.

You see what we've done here is give ourselves two vast imponderables instead of one. One we're probably going to have always. That is the weather and other acts of God. We've always had that, but now we have added another, the fluctuating market. So that now even if we are lucky enough and skillful enough to produce a good crop the bottom can fall out of the market and we still lose money. This happened most recently in 1981.

The added imponderable is placing so much additional weight on farmers that we now read that certain companies are holding clinics to help farmers cope mentally and physically with the added stress. And everybody these days knows what heavy added stress does to the human body. It causes high blood pressure, stroke, heart attacks and a variety of other physical ailments. Is "getting the government out of agriculture" worth that much to you, and your family, my friend?

(4) That we must export. That without exports farm prices would be even lower than they are. This second sentence is very true, without exports prices would be lower still. *But that is assuming the existence of the present farm program which is based almost entirely for its success on an ever increasing volume of exports.* This program would be removed and replaced with the one discussed under which exports would be of no importance. The present program sounds like a good idea, but it isn't working and will never work dependable.

(5) That a program of this nature would drive up prices at grocery and other consumer levels causing great howls of public discontent. Answer: Consumer outlets, including the big, monopolistic grocery chains, are going to go up on their prices as

much as the traffic will bear anyway. All polls show that consumers do not blame farmers for high grocery prices and do indeed understand what a small portion of prices for farm products go to farmers anyhow. Grocery prices go down very, very little when farm prices go down and continue to go up generally no matter what farm prices do. This is just a slick argument used by free market advocates to cover their real motives. And, besides that, how many prices have you been able to drive down lately by complaining?

What is needed is a program with no assumptions, no random theories, no what-ought-to-bes. A tight allotment program, properly administered, will not lead to large surpluses.

Current problems in the dairy industry have come about because no effort has been made in production controls. The unusually powerful dairy lobby has managed to get it both ways for their farmers. High supports and little or no controls. We had allotments for the high loan crop program and a balance was maintained that made it the best and cheapest farm program we have every had. Anyone who says the U.S. farm program from 1938 to 1953 was expensive is wrong. Some of our farm organization leaders seem to have forgotten everything prior to Benson's large surpluses.

(1) High loan rates worked well for many, many years, giving us a stable agricultural economy. The accusation that they caused expensive surpluses prior to 1953 (beginning of the Benson years) are false.

(2) Farmers had an iron-clad assurance of a price floor under their commodities.

(3) Banks and other lending agencies had a guarantee to back up production loans. They profited, too.

(4) Agribusiness prospered through sales to prosperous farmers.

(5) The government very often made money through interest on redeemed CCC loans.

(6) Acreage controls work if properly administered. They can be managed to work without creating undue surpluses.

What we propose on the High Loan or parity of 90 percent.

1. That parity be set at 90 percent.
2. The loan can not be made except for 9 months, if not sold the government takes possession. They then in turn can take it, dump it in some foreign country, give it to welfare, schools or go dump it in the Ocean. Keeping enough in reserve for a crop failure.
3. That this be mandatory acreage control or bushel control.
4. It will be a reforendum vote 3 months before actual planting date or a simple majority will be enough.
5. No deficiency payments.
6. No payment of any kind unless the states are declared disaster areas.
7. Do completely away with grain reserve, it is a cloud over the farm market, it holds prices down.
8. No double cropping.
9. Hay could be grown on set aside acres.
10. We need to utilize all farm land.

WHEAT BOARD

A wheat board shall be enacted for the wheat program with a vote of the producers. If the producers so ratify a wheat board it should be composed of 15 members; 7 from the consumer side and 8 from the farmers, each from a different area of the United States. This wheat board shall regulate the production of wheat, the pricing of wheat and any other regulation that is deemed necessary for the production of this commodity.

THE ADMINISTRATION FARM BILL

The Administration's bill is an absolute blueprint for disaster, both for farmers and consumers. We farmers don't particularly want federal money, we want a long term policy that will provide stability and one that will allow us to make a profit. Our present farm prices (farm program) stirs pre-depression parallels. Some experts see strong parallels between the farm crisis in the 1920's which is often ranked as the single most important cause of the depression. If I were to pick a date, I would say maybe we were about like we were in 1928.

If the Administration's plan prevails there will be a new 15 year farm law that phases down some favored price support mechanisms in its first 5 years. We farmers haven't made it in the last 4 years of the Administration, how can we make it in 15 with what they propose.

I am definitely against the Administration's bill.

AGRICULTURE AND THE DEFENSE DEPARTMENT

Let's take and do away with the Agriculture Department completely and put us under the Defense Department. As they say the Army travels on its stomach and we farmers product food for the stomach. Under the Defense Department we farmers could then contract with the Defense Department to produce this commodity for cost plus 10 percent with a little overrun, than all farmers could be tremendously happy. We could all get rich we wouldn't have to worry with David Stockman. No worries would mean we would be in heaven.

1949 LAW

If the Congress has not the guts to settle down and come up with a good fair farm bill, let's not have any bill at all, let's fall back on the 1949 Law, at least we would be making more than we are today. I think that is enough said.

DAIRY FARM BILL

The only dairy farm bill that I could recommend would be a dairy board bill. In this board would be invested power to control prices, production, advertising and any and all things that would pertain to the dairy or milk production. Bases would be set up for each and every dairyman, production would be set by the amount of usage of the milk. Any excess production would be bought for the use of welfare, school children. The excess amount of milk could not run over 1 billion per year to the government.

INTEREST

Farmers are really not worried about interest, they worry about making a profit. If interest is high and they can still make a profit so be it.

EXPORTS

In 1972 or 1973 we exported approximately 7 Billion Dollars. In 1982 we exported over 40 Billion Dollars. Where did the money go, the farmers didn't get it. We cannot depend on exports, here today gone tomorrow.

TRADE WITH FOREIGN COUNTRIES

There is a very simple solution for this. We import what you import.

DEPARTMENT OF AGRICULTURE—BANGS PROGRAM

This can be solved by mandatory calf hood vaccination and that no female animal shall cross state lines unless officially vaccinated. This would save many millions of dollars.

Statement of Janice Garrett, National WIFE Feed Grains Commodity Chairwoman, Women Involved in Farm Economics

Mr. Chairman, Members of the Committee: I wish to submit my testimony on the farm economy which I believe is on the verge of collapse. It is a deteriorating situation which I feel desperately demands your immediate attention.

My name is Janice Garrett. My husband and I, along with our children, are farmers who own and rent farm and grassland in the south central part of Nebraska. We are the third and fourth generations to care for this land, some of which has been owned by our family for one hundred years. We have a medium-sized diversified operation which consists of 300 acres of irrigated corn, a 50-head registered cow-calf herd, and a small amount of alfalfa hay.

I am representing WIFE, Women Involved in Farm Economics, as their National Feed Grains Commodity Chairwoman. The members of our grassroots organization are determined to work closely with other organizations in finding a workable solution to the financial crisis confronting Rural America.

I come before you today because of my great concern about what is happening in Rural America. The most dependable and efficient producers of food and fiber this world has ever seen are being forced from the land because of a lack of profit being generated by the raw products we are producing. As we face the reality of 250 farmers going out of business today and every day under present conditions, no one recognizes the need for the development of sound agricultural policy more than we who are involved in production agriculture. The destiny of the few commercial family farmers and ranchers who are left depends on farm policy that will provide the opportunity for profit. We believe this will result in the well-being of all ag-related industries, the viability of Rural America, and the economic stability of the entire nation.

WIFE recommends that policy-makers enact into legislation and/or refine the following points which we feel are compatible with recommendations from other leading farm organizations.

Commodity Price.—The foremost issue is price. Policy must be made which will establish and protect a price recovery system for commodities in the market place, that allows a profit to the producer. All other recommendations for a 1985 Farm Bill are so closely tied to this most important point of A PRICE FOR OUR PRODUCTS THAT ALLOWS US TO REALIZE A PROFIT, that to cure our other problems and ignore it will negate any and all time, money and effort exhausted! Our industry is different from all others in the fact that we do not have the opportunity to price our own products. Any other business is able to monitor its cost of production, add a fair profit and set its own price. With agriculture, government is involved in decisions, economic and otherwise, and virtually every decision comes down on the side of plenty to insure a ready supply of cheap food for its people, the majority of which are not involved in producing that food. If the farm producer is expected to subsidize the American consumer with cheap food at the grocery store, then we must be protected at the other end in order to insure a supply.

WIFE joins other farm groups in their concern over supply management. The program must provide, along with a loan rate keeping pace with cost of production, a well-defined mechanism for balancing production with domestic and export consumption levels and a reasonable carry-over. We strongly recommend that such set-aside or supply management program be on a unit basis.

Closely tied to production controls should be a conservation program which will encourage and enable the U.S. farmer to use conservation practices. To preserve our valuable land in its best condition for future generations requires that a long-term commitment be made by the American public.

Farm credit.—To insure that the credit needs of the U.S. agricultural industry are adequately met at the lowest possible interest rate. Our myth of a free-enterprise system is slipping too close to a government-owned agriculture system. Of the $215 billion in farm debt, $25 billion is held by FHA, just one of a handful of federal agencies that lend money to agriculture. SBA farm disaster loans for last year amounted to $2.2 billion through November. One study shows Federal agencies holding at least 54% of the agriculture debt.

This past month I participated, along with other farmers and ranchers, in a roundtable discussion with representatives of the Eighth farm credit district banks of Omaha covering Iowa, Nebraska, South Dakota and Wyoming which included Federal Land Bank, Federal Intermediate Credit Bank, Bank for Cooperatives and Production Credit Associations. Their year-end statistics show a considerable deterioration in net worth and earnings from 1983. Without exception, there were increases in delinquencies, foreclosures (Nebraska showing a 600% increase alone!), loan charge-offs, and acquired properties. These numbers did not show voluntary liquidations. In discussing these problems with WIFE members from other areas, I feel this is a representative condition. It is a fact that credit extended to farmers without realizing a profit from our commodities, only drives the farmer deeper in debt. As for the FHA servicing the problem, the insurmountable amount of paperwork, coupled with a lack of personnel, results in a program that is doomed to failure from the beginning. A debt write-off program, as is done for some foreign countries may be required in order to insure a continued supply. So once again we come back to the problem of pricing our products that I talked about in the beginning. We need a positive income.

Long term program.—Must be bi-partisan, withstanding changes in the administration, with flexibility for adjusting to changes on domestic and world economies.

If working within the framework of presently established USDA programs, we would like to recommend these policies be included. Price protection in the form of loan rates or target prices must be established at no less than the cost of production and should cover all agricultural commodities. WIFE stands on record as opposing the $10,000 cap recommended by the administration because it would only help the part-time farmer who has another source of income. According to University of Nebraska studies, the family farms who produce a large share of our products are caught the tightest in the present financial squeeze. Mid-size family farms with gross sales of $10,000 to $250,000 annually include 40% of the total U.S. farms and produce 40% of our commodities. Of these, 33% are in economic stress with a debt-asset ratio of 40% to 70%. Because of this, it is my own personal belief that realistic payments should show a preference to the middle-sized family farm. WIFE defines a family farm as a form of business enterprise in which the management decisions are made by a family engaged in the production of food or fiber for profit, which is intended to provide the major source of income and capital for investment.

A commodity reserve program, farmer-held, should be continued at a reasonable level and be implemented in a manner that will not create a depressed market. The ability of this country's farmers to produce more food than is needed should be considered a national asset, with the entire nation taking responsibility for its protection.

Long-term legislation should include a revolving loan fund in the CCC to eliminate the need for annual budget outlays for our commodity loans. Of the total USDA budget for 1985 of $37,742 billion, 27½% is used for commodity programs. The fact that only a fraction of the total USDA budget actually reaches the producer is widely misunderstood by the public.

I would like to refer you to what I consider a very important study recently released from the Food and Policy Research Institute, hereafter referred to as FAPRI. This was a joint effort by the University of Missouri and Iowa State, founded by Congress, analyzing the consequences of different policy programs. FAPRI's computerized findings were not yet available when our national steering committee met in late January. For this reason, I personally urge you to take them into consideration when addressing the problem of farm income. Briefly, as I understand it, an increase in foreign demand shows farm income remaining about the same. Voluntary programs don't offer much hope for improving farmers' incomes. Continuing present programs offers little change. Market-oriented policy would leave farmers with less income. Turning to a mandatory control program could bring a bigger boost to farm income, but only by imposing tight controls and shrinking the volume of the agricultural plant.

WIFE opposes a recourse loan policy that would only act as a cash flow tool and would no longer be a price protection devise.

We urge changes in the U.S. trade policy to develop and expand our export markets for all agricultural products, at or above the cost of production, with the producers realizing at least a share of the benefit. With ⅔ of our present feed grain production being used domestically, and the remaining ⅓ being shipped abroad, exports are essential to a healthy U.S. agriculture. However, to expect exports to stop the collapse of agriculture and agribusiness is false and misleading. WIFE asks that an export credit revolving fund be appropriated. We feel that implementation of this fund is vitally needed.

Our organization believes we need strong embargo protection. We believe government embargoes weaken the marketing credibility of our nation and are directly responsible for losses of income to the American agricultural producer. We believe that in the case an embargo becomes necessary for the defense of this nation, that it be a complete embargo of all U.S. technology and products with steps taken to insure that American products will not arrive in the embargoed nation through a third party. In such cases when agriculture products are used as weapons in setting foreign policy, compensation should be paid through the Defense Department Budget to the producers of said products.

Finally, WIFE calls for a renovation of the Federal Crop Insurance program which will put the ASCS offices in charge of determining which land is insurable, and that there be a direct relationship between coverage and premium.

Those of us in production agriculture have become victims of a point in time when ill-advised and uninformed administrators have implemented policies designed to halt the normal transaction of a successful agricultural business, and the transition of land from one generation to the next. Depression, not only of a financial nature, but depression of a mental nature is destroying the farmers' will to continue the fight for economic justice much longer.

Until this nation's largest industry, largest consumer and largest employer—AGRICULTURE—is healthy and profitable, generating real income rather than debt, generating income and tax revenues with each dollar turnover and able to purchase those urban-produced goods and services, we will not see a full economic recovery in the nation.

I submit to you that the U.S. consistency has a shared interest in what happens to agriculture. As they again realize the impact agriculture has on their own lives, their financial well-being, and their future, they must demand a profit for the agricultural producers of this country.

This testimony has addressed current WIFE proposals for the 1985 farm bill as of March, 1985: 1. Commodity prices; 2. Supply management; 3. Conservation; 4. Farm Credit; 5. Long term program in relation to 6. Price Protection; 7. Cap; 8. Commodity Reserve Program; 9. Revolving Loan Fund; 10. Recourse loans; and refers to 11. Exports and 12. Export credit revolving fund; 13. Embargo Protection; and 14. Federal Crop Insurance.

STATEMENT OF DAVID L. JOHNSON, CORN-SOYBEAN FARMER, RENVILLE COUNTY, MN

Mr. Chairman, Members of The Senate Agriculture Committee: I am honored to have the opportunity to review and discuss Farm policy. Please consider my Farmer experience regarding current Farm problems, effect's of the strong dollar, severe deflation and proposed 1985 Farm legislation. I operate an 1,800 acre corn and soybean Farm. The Farm is 75% owned and has adequate machinery and storage. I am a third generation Farmer. Our Farm experienced most of our Farm growth in the 60's and 70's.

The collapse of the Farm economy is widely blamed on rigid failed current Farm policy. This is only partially true. The major Farm economy busting factors are: excessively high interest rates, the historically high dollar and the radically changed world wheat and feed grain landscape subsequent to the Carter grain embargo. The major macro economic factors coupled with blatantly unfair competitor trade nations practices are causing a depression on the Farm. Farmers have absolutely no control over these areas and depend solely upon representative government and congressional AG committees for relief. The Farmer's only remedy is to produce greater quantities of grain which further excaberate the problem of excessive surplus and grain inventories.

A major Farm policy shift occurred in 1980 when Paul Volker, with the concurrence of the Reagan Administration, decided to "sweat" the inflation out of agriculture. This policy was accomplished by increasing the spread between the average Farm interest rate and rate of inflation. Or simply stated, high interest rates compared to low inflation rates. It is time to stop "sweating out" the Farmer. The spread between inflation and Farm interest rates in 1980 went from two points to 20+ points in 1984. Thus, Farm debt became very burdensome forcing Farm land values downward sending the Farm sector into deflation. It meant to this Farmer, a deflation rate of 10%-15% per year writing down one half or more of my assets during this period of time. The underpinnings of agricultural debt are seriously threatened by the 50% and more deflation Farm experience.

The effect of the loss of equity under this policy, which cost Minnesota alone 9 billion dollars, and in Renville County over 500 million dollars, is devastating. The cumulative AG debt is now in excess of 218 billion dollars. A concensus by any economic indicator is demonstrating massive dislocation and disarray of AG debt, interest and principal. The result is severe economic and social misery among Farm people. Federal Government has a huge stake coupled with binding obligations in AG debt. As previous stated, much of this AG debt has and is collapsing and the question is, "Who will it fall upon?" Let me remind your committee, the U.S. Government has massive contingent liabilities to the Farm credit system, the F.M.H.A. loan and guaranteed Farm loan system, F.D.I.C., cash resources are threatened, repossessed grain C.C.C. grain stocks and other integrated credit responsibilities. Thus, the point can be clearly made, a Catch 22 exists for the Administration. The choices are clear (a) either pass Farm legislation setting policy which allows the rural sector to pay its debts, or (b) continued downward depression and the U.S. Government with the taxpayer paying for the massive contingent liabilities attendant to Farm sector debt defaults.

The misery index for Farmers has been very harsh under this policy. Especially the young in Farming. Many AG banks, P.C.A.'s, and F.M.H.A.'s are now prohibiting a father from starting a son in Farming. For 46 years under the safety net concept of the 1934 A.S.C.S policy, the spread between inflation and interest rates was less than four points providing stability and prosperity. I am convinced our extreme credit liquidity crisis problems are not caused by failure of long standing AG policy which has survived ten presidents and 25 congressional elections, a world war, inflation and a number of other factors previously discussed.

The U.S. government planners are faced a huge current 200 billion deficit limitation. A virtual glut of grain is currently headed for government ownership under the C.C.C. nonrecourse loans and Reserve V expiration on January 1, 1986. Nonetheless, agriculture must have the stabilizing support of an internal safety net system to stabilize a severely wounded and dying Farm industry as we Farm and rural people have known and experienced.

1. America is now a part of world grain economy that is only partially integrated into our external AG policy. The effects of government Farm policy since 1980 have lowered wheat and feed grain support prices to discourage world grain expansion. The backlash and impact on Farmers is devastating because the U.S. economy inflated significantly since 1980. In reality, the lowering of grain support prices are in direct response to the ever stronger dollar. The American dollar is now approximately 200% of its 1980 value. Thus, the stimulus provided to a competing country is, in effect, doubling of our current grain prices and has little relationship to the safety net peg of grain prices. An illustration: $5 corn (2×$2.50) would yield a crop of 12 billion bushels or more. Four years are enough to punish American Farmers with lower prices in an effort to offset the continuing stronger incentives to our world grain competitor expansion plans. The Farmer has been stretched to the limit of his resources.

The U.S. price support peg system for feed grains and wheat has set the world grain price since its inception in 1934. If this system is abandoned by the Administration's Agricultural Adjustment Act (A.A.A.) of 1985, there is no other heir apparent to assume this role. In all probability, grain prices would plummet. Evidence the flat Board of Trade option and the effect of support levels on current options.

The A.A.A. assumes that a free market system exists which would halt the free fall of grain prices when it is enacted. Preliminary testimony before the Senate AG Committee suggests that a "free grain market" simply does not exist. Further, American agriculture without exception has made grain available to a willing buyer. A free market does not exist because all of our world competitors have internal and external AG policies that influence grain prices. Some countries such as the E.C.C., use tax dollars as a direct subsidy to exit surplus grain from their shores. The U.S. long standing AG policy of supply management idling land plays directly into this advantage of the E.C.C. and most of our world grain competitors. This is so because the E.C.C. policy is to plant its entire acreage with no set-aside. This policy is looked upon favorably because of a more fully employed society with its attendant benefits of lower unemployment benefits and welfare costs. Their system is willing to accept the tax burden of offsetting a high Farmer price with tax dollars to lower grain prices sufficient to exit their shores.

SUMMARY

America must play her role as the major world grain exporting nation. The long standing AG policy of 50 years has provided America with the greatest quantity, quality and lowest price of food ever known to a civilization. We must alter this policy by developing an internal AG policy which raises price supports to levels which relate to the business environment that our Farmers must engage. The internal policy should parallel E.C.C. policy to the extent it removes their present policy advantage of continued in-roads into our share of the world grain market. The external policy must provide a buffer for the effects of currency fluctuations. Farmers cannot absorb any further economic blows caused by the strong dollar.

RECOMMENDATIONS

1. An immediate short term policy which would stabilize the downward spiral of Farm land prices. The President's veto of the Emergency Farm Credit resulted in fear in our lending agencies that a crash is eminent. Something must be done to restore confidence short term, to allow a calculated well-planned long term solution.

2. A tough sod-buster policy with paid diversion to set aside up to 20 million acres or more of highly erodable land. The current economic climate is such that it can be accomplished now at a far lower cost than in any previous time in two decades.

3. A two-price system, domestic and export, defining internal and external policy issues, will be necessary to serve as a buffer to mitigate currency and macro economic fluctuations. America must meet G.A.T.T. abuses or its own terms now. The development of a dual AG policy, internal and external, will defuse unfair competition and preserve and expand America's share of world export markets.

The Administration and Helms Farm bills would result in immediate lower prices and unacceptable hardship on Farmers. Farmers have been severely wounded financially and cannot accept lower prices.

(a) *Title I* is positive for exports. However, it fails to clearly define an external U.S. AG policy. It circumvents the real issue in world grain trade of retaliating against unfair trade practices and is a half hearted attempt to place the American Farmer upon equal footing with our competitor external AG policies. The flexible concepts of grain pricing are well conceived for pricing in the world market. However, when applied to the U.S. internal economic conditions in which the Farmer must operate, the results are imposition of world economic conditions upon the Farmer. However, a flexible internal AG policy is needed.

b. *Titles II thru XIV* describe internal AG policy. The problem with the principles set forth within them, without exception, is an attempt to view internal Farm problems through a single-minded policy solving both internal and external Farm grain policy issues. The Senate AG Committee is well advised to look at internal and external AG policy as separate issues. An attempt must be made to develop a buffer provided by a two-tier pricing system and writing down export grain to meet competition on equal terms. Thus, AG budget dollars could be rerouted from an internal policy which could be made to stand on the marketplace. The external policy would use pricing criteria of standard value dollar (i.e., 1980), macro economic factors, the world economy, and other considerations such as a five year rolling average. The revenues for this plan would be available from rerouting current Farm subsidies. If further revenues are needed, a one cent surcharge to all U.S. food purchases which result in an additional revenues of 9 billion dollars per year.

4. The AG department needs to be for farmers and agriculture. *Remove food stamps administration from U.S.D.A. and place into Health and Human Services Department. AG budgets are bulbous and this action places AG budgeting in a correct public perception. *C.C.C. Farmer transactions under current policy are currently begun in a current fiscal year and quite often are paid back in a subsequent year. The result is an off-budget payback which results in an unfair budget deflict. A more correct method of reporting AG budget is needed. *Farmers are sorely in need of a secretary of agriculture who will forcefully serve as an advocate for their concerns.

MARCH 27 HEARING—SOYBEAN ISSUES

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, the soybean farmer's historic commitment to the concept of a free marketplace is well-known and commendable. Producers of soybeans remain optimistic that the free market will provide them a profitable price.

Over one-half of domestic soybean production is exported. For this reason, it is imperative that the Federal Government strengthen its standing in world markets, not only for the benefit of soybean producers, but for all commodities.

In this regard, the Federal Government must refrain from using trade sanctions as a tool of foreign and defense policies, and must strive to re-establish the notion of contract sanctity. Further, we must intensify our efforts to expand established markets and develop new ones.

I look forward to reviewing the testimony of today's witnesses.

STATEMENT OF HON. MITCH MCCONNELL, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman: I think it is significant that testimony given by farmers and others on behalf of the soybean industry will receive special attention from this committee. Soybean people have lived with a simple loan rate program for a number of years, and it appears to this Senator that the soybean program will be a model for all commodity programs, as we continue deliberations on the 1985 Farm Bill.

I think it is important to note that soybean production, in terms of acreage and yield, has steadily increased in the last decade. As was pointed out earlier in these hearings, it wasn't so very long ago that soybeans were nothing more than cover crops for corn and grain sorghum. The exciting growth in the soybean industry is the shining example of what technology can mean for agriculture.

Acreages of soybeans in Kentucky have increased to the point where soybeans are the number one crop in Kentucky, in terms of acreage planted and harvested. I'm anxious to hear what the soybean people have in mind to continue this tremendous growth in the future.

Thank you Mr. Chairman.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, soybeans are vital to the agricultural sector of my home State of Illinois and, indeed, of the Nation. Illinois is historically the number one producer of soybeans in the country.

I am pleased that the Chairman has called this hearing on soybeans. I look forward to this morning's testimony.

Thank you, Mr. Chairman.

STATEMENT OF ROGER ASENDORF, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

Mr. Chairman, my name is Roger Asendorf. I raise soybeans and corn near St. James, Minnesota, and I'm currently serving as President of the American Soybean Association. I appreciate the chance to be here today.

The American Soybean Association is a national non-profit commodity organization controlled by soybean farmers. ASA has some 25,000 dues-paying members and receives financial support from 420,000 farmers in 24 states who voluntarily invest in ASA activities through checkoff programs. Its objective is to build profits for America's 520,000 soybean farmers. ASA's major activities include expanding exports, promoting domestic sales, sponsoring soybean research, working for favorable public policies and providing information.

Mr. Chairman, the state of agriculture in 1985 is not good. Farmers face low commodity prices, high interest rates and plummeting land values. At the same time, we find ourselves in a moment of rare opportunity: With the nation's attention focused on agriculture, we have a chance to renew America's commitment to a sound agricultural industry and put profits back in the picture for the country's farms.

Today's farmers are participants in the world marketplace whether they want to be or not. Producing solely for the domestic market is simply not an option unless we want to drive a great many of our farmers off the farm, for with close to 40 percent of our crops being grown for overseas markets, you just can't prop up prices high enough to make up for the loss in sales if we abandoned export markets.

If we're inextricably in the export market, then, we'd better be competitive: We'd better sell more rather than less. Yet, as we all know, after the export boom of the 1970s has come the export bust of the 1980s. What caused the slump?

The U.S. dollar rose dramatically against other currencies, so that U.S. exports became were more expensive for our foreign customers to buy.

World recession made demand fall; anemic recovery in many countries kept it down.

Competing nations, such as Brazil and the European Community, subsidized their exports and underbid the U.S. for market shares.

The 1980 grain embargo shut the U.S. out of what was then a growing Soviet market and helped give our nation a reputation as an unreliable supplier.

The international debt crisis caused Third World countries to reduce their imports and expand their exports, agricultural and otherwise, in order to improve their trade balances.

Both importing and exporting nationas had increased their food production because of good weather, higher prices and other factors.

Each of these factors and many more played a part in making U.S. products less competitive. Three years ago ASA would have assured the Committee that the United States was the most efficient supplier of soybeans in the world. We cannot make that claim today. In the last three years, we've seen our competitive advantage disappear—not because of anything American soybean farmers have done or not done, but because of factors over which they can exercise no control: subsidies to foreign exporters, exorbitant real interest costs in the U.S., and most of all the rise in the value of the dollar.

I've included with my testimony some graphic illustrations of just what the high dollar does to us. Charts 1 through 5 compare the price of U.S. soybeans in our customers' currencies with the level of U.S. soybean exports to those countries. For virtually every one of our top five customers, the same pattern emerges: the effective price of U.S. soybeans to our customers rose in 1983 and 1984; the volume they bought dropped. That's first-semester economics, of course: demand falls as price rises. But today's world of floating exchange rates puts a new twist on the old principles, since American farmers don't have the higher prices to console them for the sales volume they're losing. As Chart 6 shows, U.S. prices have been flat or falling in recent years, while the effective price our customers pay has been rising.

The U.S. dollar is high for several reasons. Congress should take a close look at all the factors involved, and may want to ask itself whether interest earned on foreign capital is being taxed equitably, compared to interest earned by U.S. investors. Another reason the dollar is overvalued is that the real interest return on dollar investments is being kept higher than it should be because of excessive federal borrowing to finance the U.S. budget deficit.

Government is spending too much money. It must spend less. We believe deficit reduction should be the first priority of domestic policy, and that means restraining federal spending. Farmers are willing to accept their fair share of the cuts if others do likewise, but they don't believe it's fair for agriculture to undergo severe cuts while some other parts of government see only reductions in their rate of increase.

MAKING AGRICULTURAL POLICY "PRO-TRADE"

The American Soybean Association supports a pro-trade agricultural policy that will allow the United States to be the preferred supplier of agricultural products for the world market. ASA believes agricultural export policy should be Title I of the new Ag Bill. It's time to declare to our competitors that selling, not storing, is our top priority.

Clearly, agriculture has to set priorities in this new legislation. We must decide what kinds of policies the agricultural community wants—and what taxpayers can afford. In a time of lean budgets, we must make hard choices about what's important to us.

ASA does not believe U.S. agriculture can prosper without expanded exports. It therefore behooves the nation to work toward a fair international trade arena. And it behooves us to devote some resources to competing and selling.

ASA supports a coherent system of Sales Financing and Infrastructure Development (SFID) as the best way to tailor our sales efforts to our customers' buying needs and abilities. This concept should have two primary applications:

Direct Sales Expansion, primarily through credit packages for foreign purchasers of U.S. commodities, in the form of both direct credit and credit guarantees; and

Infrastructural Investment to build up countries' long-term capacity to buy and utilize U.S. products.

Each application calls for somewhat different tools. *Direct Sales Expansion,* for instance, should include (1) traditional programs like GSM-102 guarantees and GSM-5 credits; (2) a new intermediate "bridge" program to provide export credit with 3-10 year repayment terms for countries who cannot meet GSM-102 terms but have moved beyond P.L. 480 donations; and (3) an enhanced Food for Peace program for countries at the bottom of the economic ladder—perhaps in combination with the President's Food for Progress initiative.

Infrastructural Investment also makes long-term sense. Until a country can receive, store and distribute commodities efficiently, its potential as a U.S. market is limited. Infrastructure lending should be used to finance improvements in a country's capacity to handle, store, market, process and distribute U.S. commodities. Repayments should be set up on a 3-10 year schedule. A portion of the repayment should be made in local currency, and used by USDA-approved cooperator groups for market development activities within the country.

The SFID concept embraces forms of direct aid like Food for Peace. Where possible, though, it relies on providing financing packages which can make it more attractive to buy from the United States. In this way, we can move toward our goal: supplier of first resort, not last. SFID can help the U.S. build markets . . . and keep them.

We will not be able to build markets, however—indeed, we will not even be able to keep the ones we have—if government insists on crippling the very programs designed to restore U.S. market share. One very pertinent example: the recent court decision that cargo preference laws must apply to USDA's blended credit program. Because cargo preference means higher shipping costs due to uncompetitive U.S.-flag rates, this decision basically prices the blended credit program out of the world market. The same thing will happen to the GSM-102 credit guarantee program if subsequent lawsuits render it subject to cargo preference as well. There's only one answer, Mr. Chairman: Congress must reverse this court ruling, and at the same time make a basic reform of the nation's maritime policies. Cargo preference is a subsidy to the U.S. merchant fleet, and as such it should not come out of the USDA budget. If our merchant fleet is a matter of national security, then cargo preference should be part of the Defense budget. We need truth in budgeting, and we need a total exemption from cargo preference for agricultural commodities, including those shipped under the Food for Peace program.

THE SOYBEAN LOAN PROGRAM

When it comes to the loan program for soybeans, ASA is reminded of an old saying: "If it ain't broke, don't fix it." We believe the soybean loan program should continue in its present form.

It's important to understand the purpose of the soybean loan program. It is not intended to guarantee soybean farmers a profit. It is not intended to set the market price.

Soybean farmers view the loan program as a source of credit and cash flow, and a protection against really precipitous price drops. By that standard, it's worked quite well. The program begins with an average of market prices for the last five years, dropping the high and low years. The loan rate is set at 75 percent of this average, with a $5.02 minimum. This minimum, in turn, could fall if prices averaged less than 105 percent of the loan. That hasn't happened, but if it did, the loan rate could be reduced 10 percent per year, but not to less than $4.50 per bushel.

ASA asks Congress to extend this program unchanged. ASA opposes any target price or deficiency payments for soybeans. We oppose any government restrictions on U.S. soybean acreage, and we're against storage payments or the establishment of a reserve program for soybeans. We also strongly urge Congress not to allow soybeans to be planted on land that's idled under government programs for other crops.

Let me repeat that the soybean loan program has been a success. It assuredly hasn't kept soybean farmers from feeling the same pain that all of agriculture has undergone in recent years—but nobody could reasonably have expected it to do that.

There haven't been unmanageable soybean surpluses. During the past nine marketing years, the ratio of ending soybean stocks to total use has averaged 12.1 percent, the lowest of all the major program crops.

During the 1981–83 period, a very difficult time, the ratio of farm prices to production costs was higher for soybeans than for any other major program crop. The same pattern emerges if you use the older "parity" concept for comparison.

Finally, the soybean loan program hasn't been expensive to taxpayers. In some years, in fact, more money is taken in through loan repayments than is lent out.

Different commodities have different characteristics and needs. ASA doesn't seek to influence commodity programs which have no impact on soybeans. But our loan program works for soybean farmers. It works for the taxpayer. It should continue unchanged.

OTHER ISSUES

Many other elements must go into a successful 1985 Ag Bill. Funding for cooperative market development, for example, should continue, with adequate resources from both farmers and the public. In addition, the nation should reaffirm and renew its commitment to agricultural research and extension—an investment that has traditionally paid a very high rate of return. ASA believes our nation's research effort should focus on increased product utilization, improved production efficiency and lower costs of production.

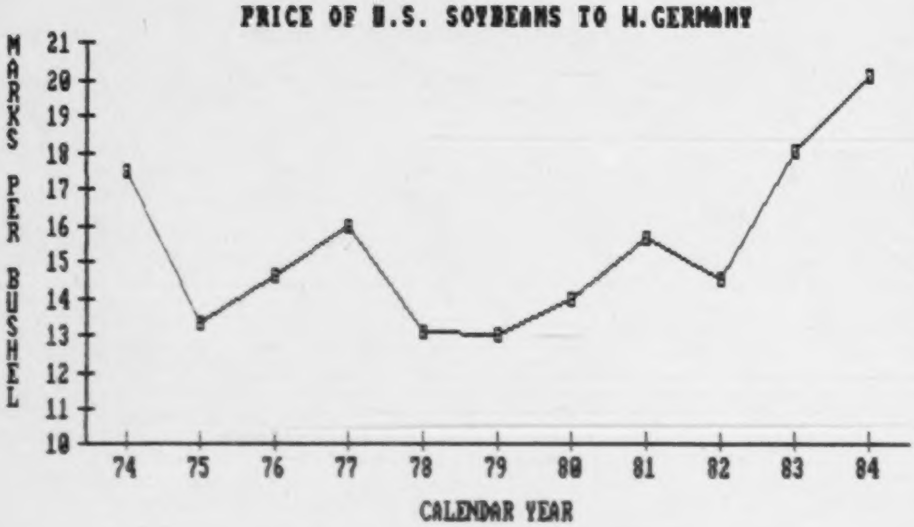
We also support a national effort to conserve soil and water resources for future generations. Continued cooperative efforts with landowners, like the Agricultural Conservation Program, are very important.

At the same time, the Soybean Association strongly supports allowing states and local areas to determine conservation practices that best meet local needs, rather than having all decisions made in Washington. Conservation should be a voluntary effort, and people who know the soil and water conditions in their own areas are usually better able to steward the resource base than bureaucrats far away in Washington. Conservation should be a matter of cooperation, not coercion—though there is no reason for taxpayers to subsidize crops grown on highly erodible land that hasn't been in production before.

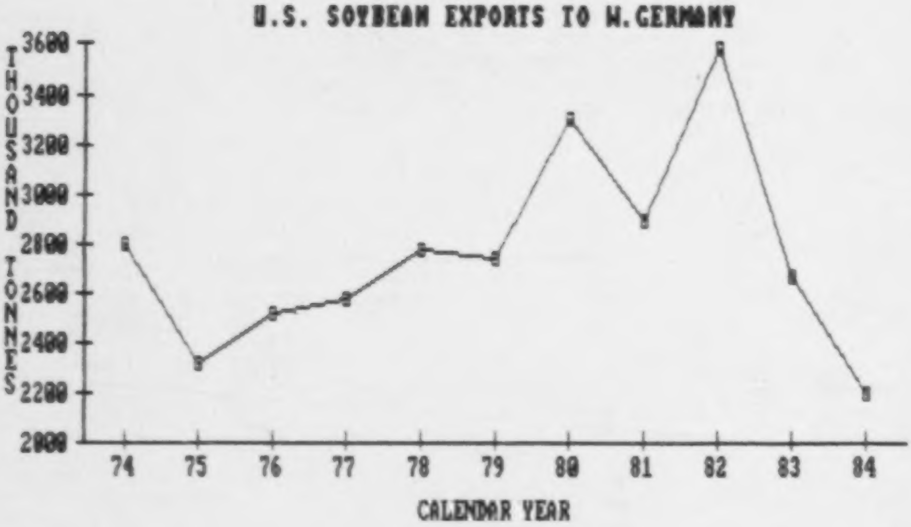
ASA would like to thank the Committee for considering our views on the 1985 Agricultural Bill. Our nation has some critical choices to make about agricultural policy. We must be honest enough to admit that the world has changed. What worked in 1935 may not work in 1985. Today's agriculture is a dynamic, changing industry that depends as never before on international markets. If it is to succeed, agricultural policy must respond to those markets. That does not mean that there is no role for government—there's certainly a proper federal role, for example, in combatting foreign export subsidies and trade barriers, and putting a meaningful amount of effort and capital behind promoting agricultural exports. Expanding agricultural exports in this way will help not only agriculture but also the country as a whole by reducing our foreign trade deficits.

Thank you for your attention, Mr. Chairman, and I'll be happy to try and answer any questions you may have.

CHART 1

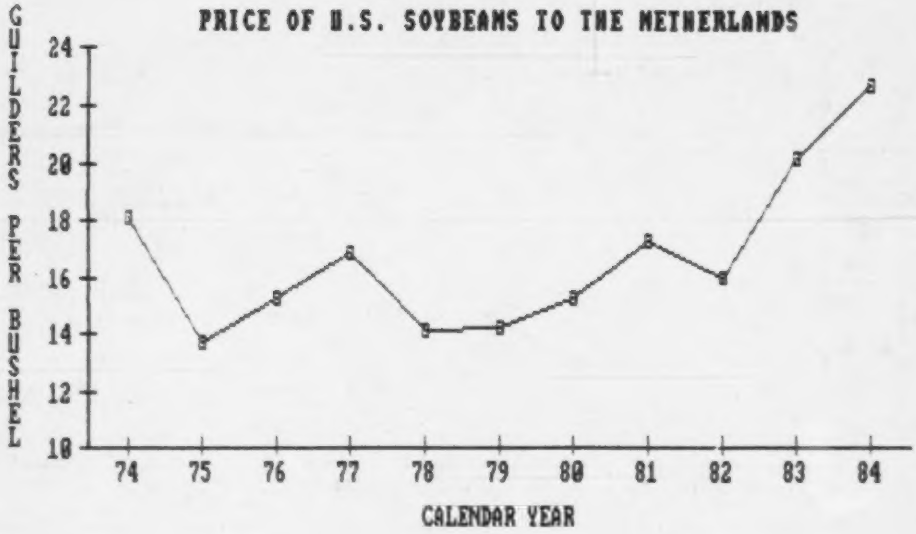


PRICE OF U.S. SOYBEANS TO W.GERMANY



U.S. SOYBEAN EXPORTS TO W.GERMANY

CHART 2


PRICE OF U.S. SOYBEANS TO THE NETHERLANDS
GUILDERS PER BUSHEL
24
22
20
18
16
14
12
10
74
75
76
77
78
79
80
81
82
83
84
CALENDAR YEAR

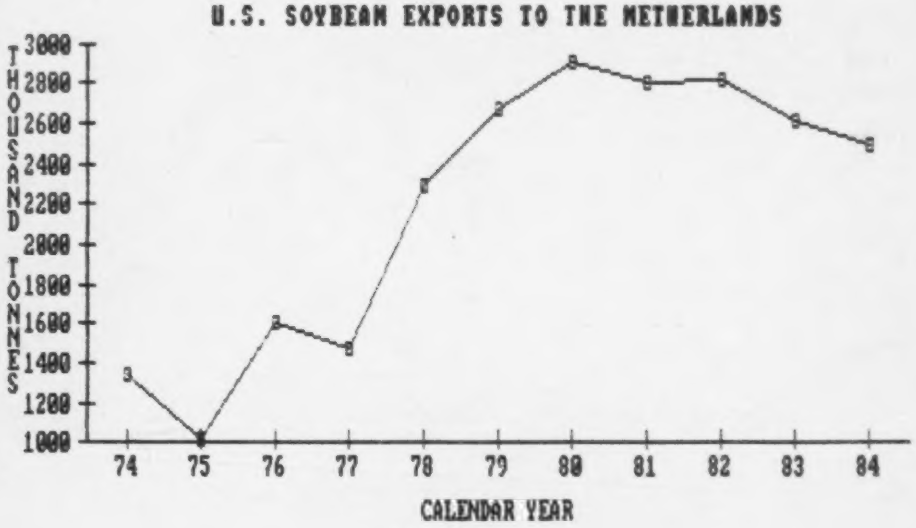
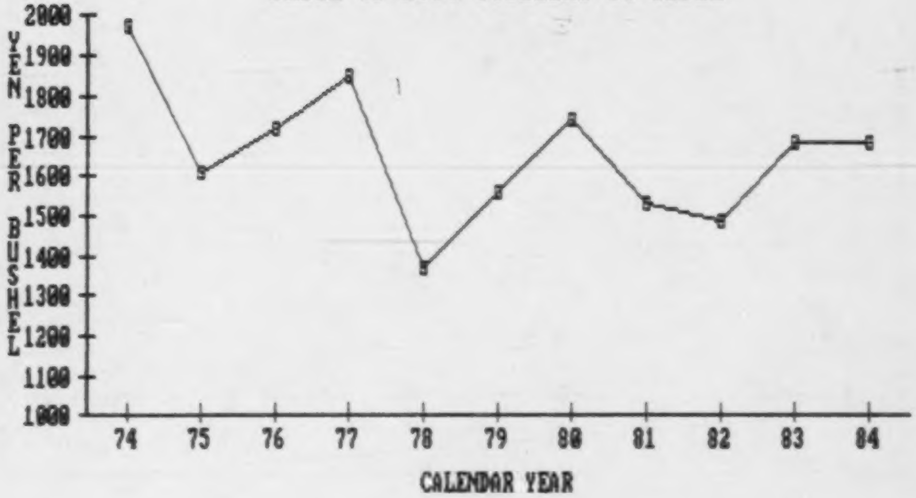
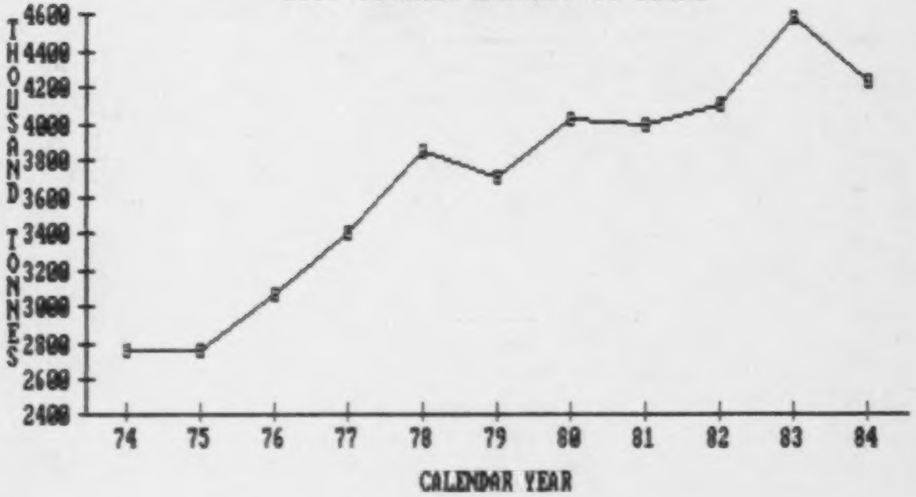

U.S. SOYBEAN EXPORTS TO THE NETHERLANDS
THOUSAND TONNES
3000
2800
2600
2400
2200
2000
1800
1600
1400
1200
1000
74
75
76
77
78
79
80
81
82
83
84
CALENDAR YEAR

CHART 3

PRICE OF U.S. SOYBEANS TO JAPAN



U.S. SOYBEAN EXPORTS TO JAPAN



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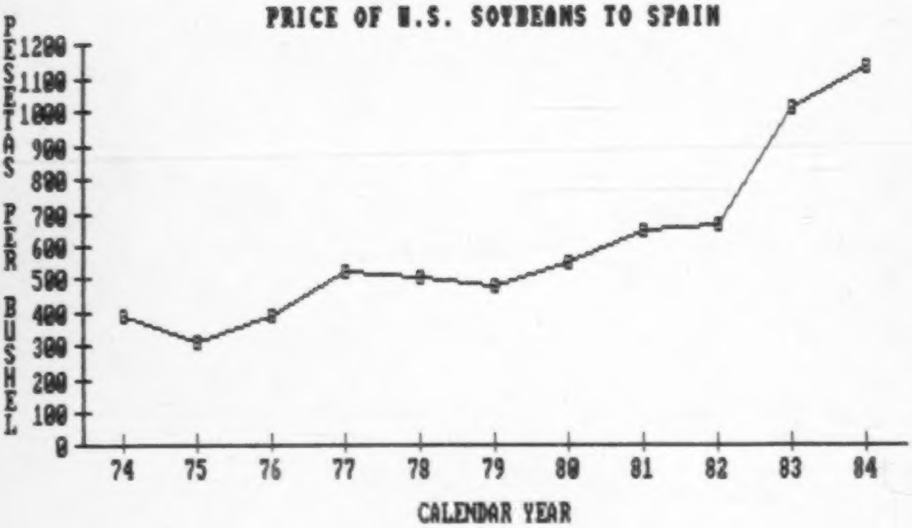

PRICE OF U.S. SOYBEANS TO SPAIN
PESETAS PER BUSHEL
1200
1100
1000
900
800
700
600
500
400
300
200
100
0
74
75
76
77
78
79
80
81
82
83
84
CALENDAR YEAR

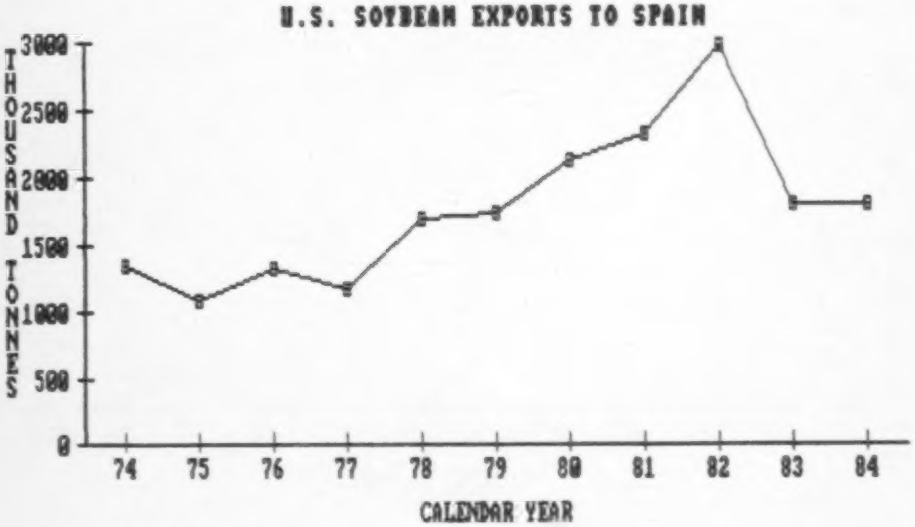
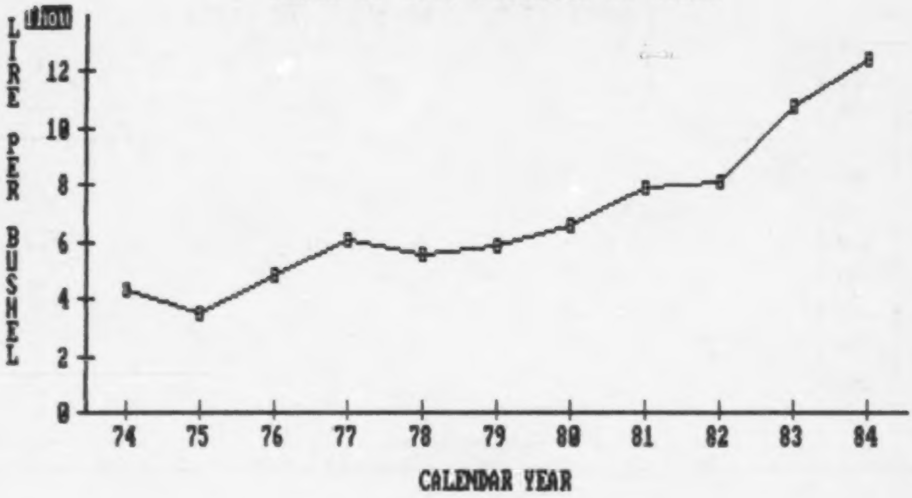

U.S. SOYBEAN EXPORTS TO SPAIN
THOUSAND TONNES
3000
2500
2000
1500
1000
500
0
74
75
76
77
78
79
80
81
82
83
84
CALENDAR YEAR

CHART 5

PRICE OF U.S. SOYBEANS TO ITALY



U.S. SOYBEAN EXPORTS TO ITALY

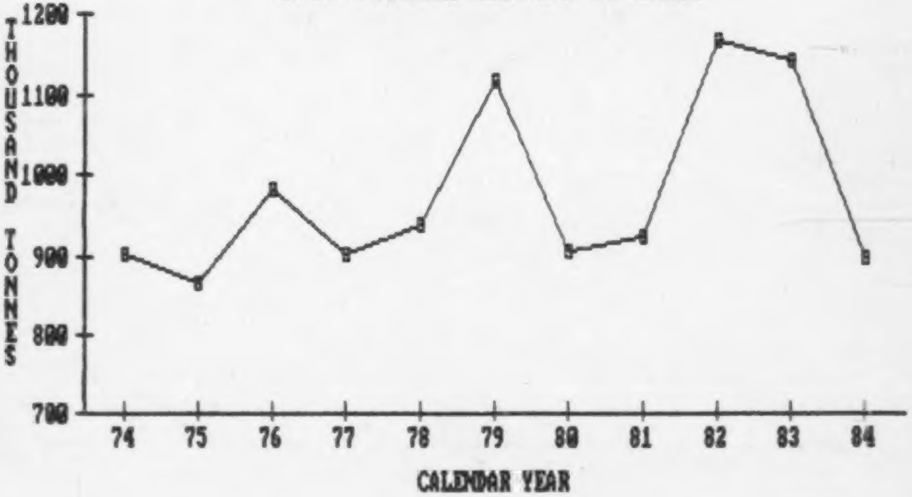
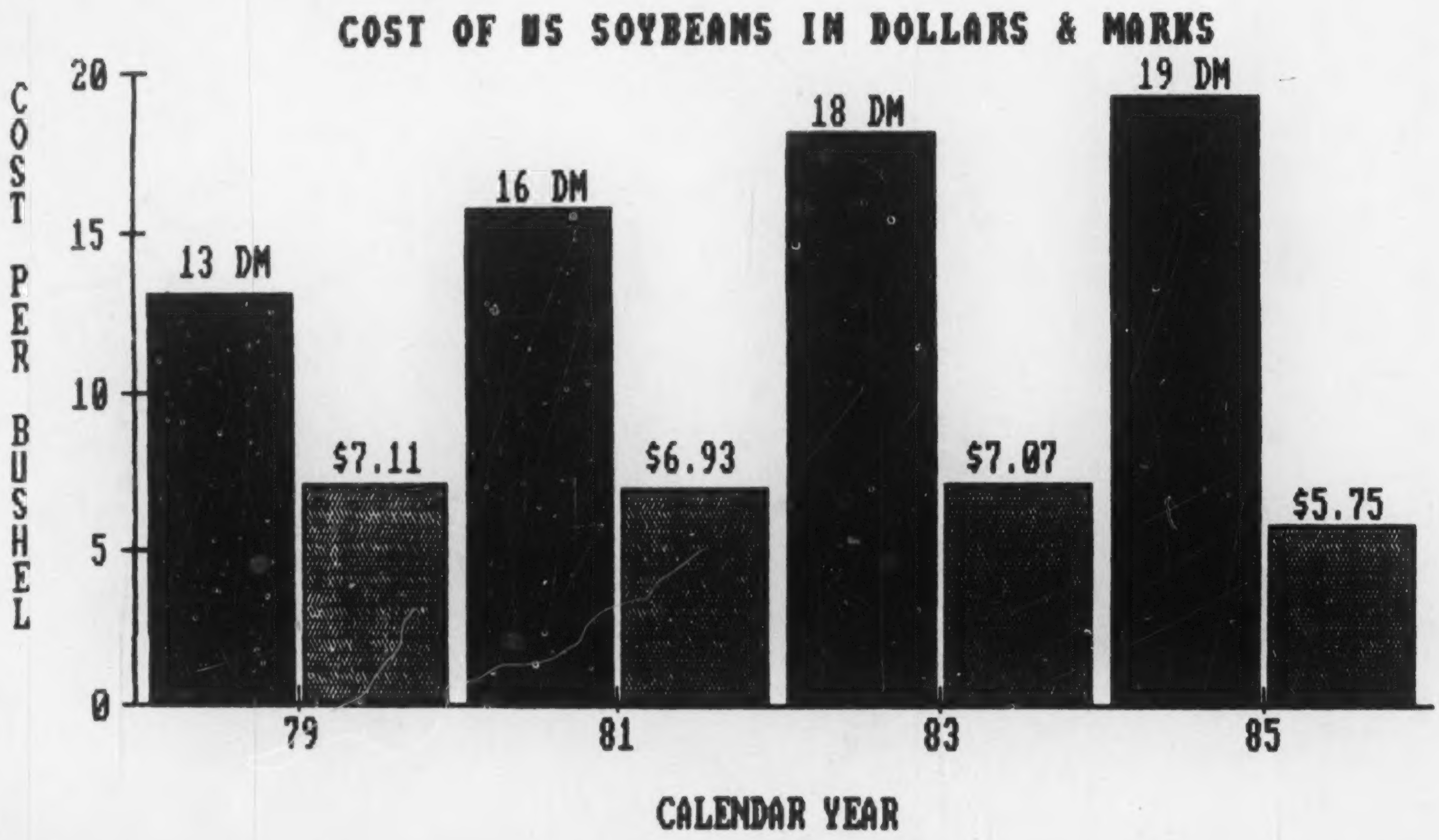


CHART 6


COST OF US SOYBEANS IN DOLLARS & MARKS
COST PER BUSHEL
20
15
10
5
0
13 DM
$7.11
16 DM
$6.93
18 DM
$7.07
19 DM
$5.75
79
81
83
85
CALENDAR YEAR

STATEMENT OF JOHN F. SHARP, REPRESENTING THE ALABAMA FARM BUREAU, SOYBEAN DIVISION

Mr. Chairman, I am John Sharp, representing the Soybean Division of the Alabama Farm Bureau Federation. I farm 1,000 acres of soybeans in Mobile County. I am active in my state and county Farm Bureau and currently serve as chairman of the State Soybean Committee. I was privileged to serve as a member of the USDA Soybean Research Advisory Institute. Today, I will limit my remarks to just five topics which are of interest to the soybean producers of Alabama, they are: 1. The Soybean Loan Program; 2. Research; 3. Double-Cropping; 4. Trade Policy; and 5. Soybean Exports.

SOYBEAN LOAN PROGRAM

The current soybean loan program as authorized under the 1981 Act, provides our commodity a safety net without involving any direct government payments, or production controls and only minimum government program costs. The formula for determining the "loan rate" at 75% of the five year moving average of the "season average price" excluding the high and the low years, with a minimum loan rate of $5.02 per bushel, has provided a stable pricing structure and is market oriented. We would recommend retaining this formula in the 1985 Bill. It is our opinion that the proposal to use a three year moving average rather than the current formula would not work as effectively as the present formula. Widespread drought or crop failure in other producing nations would create artificially high season average prices. Overproduction in the U.S. or other countries would have the reverse effect, particularly if these phenomena occurred back to back. It is our opinion that the signals which would be sent to producers in this country and in other producing nations in either case could artificially stimulate or depress production and further distort the markets.

The recent deterioration of prices in U.S. markets has not been caused by overproduction. It is the result of forces over which the soybean farmer had no control. The effect that this deterioration would have on the soybean loan values if calculated without the $5.02 floor would remove the safety net for soybean producers. We therefore advocate retaining the floor at $5.02. At this level, considering present and anticipated increases in the cost of production, the soybean loan would not provide a stimulus for production in this or any other nation.

In addition Mr. Chairman, we do not feel that all commodity programs must be identical. We feel that each commodity is unique. The economics of production, handling, utilization, and marketing should be considered for each individual commodity.

RESEARCH

Rising production costs, low yields and low prices have reduced soybean profits to levels which border on economic disaster. In Alabama, average soybean yields over the past five years have shown a gradual decline. This may be attributed in some measure to "double-cropping." However, the 21 bushel state average, at a $156 per acre cost of production requires a $7.44 per bushel price to break even. As I mentioned earlier, causes beyond those under control of the producer have depressed prices below this level.

The low yields that we have experienced have several contributory causes. In recent years Alabama and other southern soybean producers have had to contend with several droughts, which significantly lowered yields. More significant perhaps is the incidence of several species and strains of nematodes and stem canker, weed competition and insect pests, all of which have taken their toll on our averages.

Research has provided much knowledge in the control of these problems, but a great deal more is required. The teams of scientists, technicians, and students assembled in our land-grant colleges and universities and experiment stations must have the funding to continue their work. Varieties of soybeans resistant to diseases and nematodes and able to withstand drought are within reach, and when available would restore our region to higher levels of productive efficiency. It is essential that added emphasis be place on the development of new and improved uses of soybeans, and that improved marketing practices be developed.

Mr. Chairman, research is what has made American agriculture great. We are now producing soybeans using the technologies developed by research efforts of two and three decades ago. We must continue to improve or we will cease to be competitive. To accomplish this we recommend continued funding of agricultural research at present levels at the very least.

DOUBLE-CROPPING

In Alabama and the southeast, double-cropping soybeans and wheat has become a common and profitable practice. Double-cropping provides income from the two crops which are grown on the same acre in the same year. The wheat harvest in early summer provides badly needed cash flow. Soybean yields are somewhat reduced due to late planting, but the combined income brings an acre of southern farmland closer to that of the midwestern farmer who produces either wheat or soybeans.

The economics of double-cropping wheat and soybeans depends on the type of operation, the utilization of the wheat (feed or cash crop), the market for the two crops, the whether, cultural methods, and many other factors. Under optimum conditions double-cropping will return an Alabama soybean farmer more profit per acre than a single crop of soybeans.

Generally the yield of soybeans following wheat is somewhat less than conventionally planted soybeans. When the market for wheat is good or where the wheat is utilized as a feed grain, the loss in soybean yield is compensated. The total cash flow from the full season utilization of the land is increased significantly. For example: an acre of soft red wheat which yields 40 bushels per acre and brings $3.30 per bushel would net $2.14 per acre. The same acre of soybeans, yielding 29 bushels per acre, bringing $5.90 per bushel, planted after conventional land preparation, would net $30.84 per acre. The farm potential for wheat and soybeans grown separately on two acres of land is therefore $32.98. Using conventional practices for double-cropping, the same yield for wheat, and reducing the soybean yield four bushels per acre for late planting would net $50.19.

The increased efficiency, land utilization, and economic potential for double-cropping, where growing seasons and land use permit it, should be considered when the acreage reduction programs are being developed. Such programs in the past have failed to consider these factors and have been prejudicial against southern producers.

TRADE POLICY

Until recently, soybeans have been successful in international markets. A stagnant world economy, U.S. embargoes, foreign trade barriers, predatory trade practices, and the macroeconomic policies of the U.S. Government have severely eroded American markets. Nations such as Brazil and Argentina have used export subsidies in world markets to gain competitive advantage in oilseed markets. Other soil crops have been afforded competitive advantage in transportation rates within our borders. Recently the Communist Chinese have increased their activity in world markets. The net result has been an erosion of the soybean market for U.S. soybeans.

We would ask this Committee to use every means possible to restore world markets to a truly competitive status. This should include the utilization of blended credit, the adequate funding of export credit in either direct or guaranteed loans with favorable terms to qualified customers, the employment of an export PIK using surplus CCC commodities, counterveiling duties on products from nations which employ predatory export practices, full utilization of PL 480, including the authority to allow payment for American products in foreign currencies, the complete elimination of Cargo Preference on all agricultural products and full protection of the sanctity of contracts except in instances of true national emergency.

American agriculture must be allowed to compete in fair and free world markets. The practices which have allowed foreign commodities to penetrate traditional American markets, or which present barriers against our entry to markets cannot be allowed to continue. We ask this committee to provide us the tools to become truly market oriented in free and fair markets. Proposals to lower our prices to provide the least common denominator in world markets are naive and destructive.

EXPORTS

Alabama soybean farmers compete in international markets. Soybeans contain valuable protein and oil which makes them a unique and valuable product. The demand for soybeans traded on world markets is in large measure created by the desire for improved standards of living in all nations of the world. In recent years the growth of the economies of trading nations has been slow and anticipated growth severely limited. It is the policy of the Alabama Farm Bureau Soybean Committee to favor all actions which will stimulate established markets, and establish new markets. Exports sustain a strong agricultural economy. It may appear simplistic to state that the full employment of the productive capacity of American agriculture at economic levels directed by price finding mechanisms in domestic and fair and free foreign markets should be the primary policy objective of this government. A strong defense is created not solely by weapons and men under arms. National strength must be established on the will to sustain a strong and productive domestic economy.

Gentlemen, I appreciate the opportunity to appear before you today to testify on the interests of Alabama soybean farmers.

MARCH 28 HEARING—WHEAT ISSUES

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, the provisions of the wheat program authorized in the 1985 farm bill will be vitally important to the farmers of Nebraska. With the economic hardships of low prices, high interest rates, shrinking markets, and expanding debt battering farmers, strong program provisions are called for. I expect that the hearing today will bring to the committee's attention recommendations on some of those provisions.

EXCESS PRODUCTION IS DEPRESSING WHEAT PRICES

The wheat programs established by the administration for recent crop years have not been adequate to attract sufficient numbers of wheat growers to participate. As a result, farmers have produced wheat in excess of the quantities demanded for domestic and export use. Production of wheat has resulted in unacceptably large inventories of wheat in each of the crop years since 1980—despite a volume of export sales of wheat larger than any year in the so-called growth decade of the 1970's.

The high volume of production has adversely affected wheat prices. The average price received by farmers for wheat was nearly $4 per bushel for crops produced between the mid-1970's and 1980. This year, wheat prices appear to be heading toward $3 per bushel. This trend must be reversed.

With prices at low levels, wheat has become a competitor to feed grains—placing additional pressure on farm prices for corn, sorghum, and the other feed grains. Wheat used for feed has reached a volume of about 375 million bushels for both the 1983 and 1984 crops.

The administration's farm bill provides for a reduction in the loan rate for wheat, in an attempt to expand export markets. The Department of Agriculture's publication, wheat; background for the 1985 farm legislation, presents some interesting facts that should be considered as we review the administration's proposal:

The loan rate for wheat has declined 8.7 percent between the 1977 and 1984 crop years, after adjusting for inflation;

The target price for wheat declined 5.8 percent over the same time period;

Net farm income has remained at about the same level, before adjusting for inflation, and been reduced by half after considering the effects of inflation.

Farm income must be improved and stabilized, and to improve farm income we must improve commodity prices. I do not believe we will improve commodity prices until we reduce the tremendous surpluses that are presently overshadowing the marketplace.

I concur with the administration's efforts to expand export markets, but I do not feel that export markets alone are sufficient to absorb the volume of commodities American farmers are capable of producing. We suffer not only from surplus production, but from surplus production capacity, as well.

Nor do I agree that we can sit idly by while farmers continue to go broke during the 4 to 5 year period the administration estimates it will take before prices improve to a profitable level under their "market-oriented" approach.

The alternative, then, is a program that tailors production to demand, concurrent with an aggressive market development effort.

I look forward to reviewing the testimony of today's witnesses.

STATEMENT OF HON. MITCH MCCONNELL, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman: As we begin discussions on a new wheat program, I think we could do well to remember some of the testimony given by Alabama farmer John F. Sharp at yesterday's soybean hearing. Mr. Sharp, as you'll remember, testified to the Committee that wheat production has become an integral part of grain farming in the

Southeastern United States. Wheat production in Kentucky has increased some 20% in the last 5 years, largely due to the double-cropping systems that Mr. Sharp talked. It's time that we on this Committee recognize that wheat production is no longer confined to the midwest and upper midwest and the wheat title in the 1985 Farm Bill needs to be structured so as not to discriminate against wheat in Kentucky and the rest of the Southeast.

The huge surplus of wheat stockpiles, Mr. Chairman, calls our attention to the value of the Farmer-owned grain reserve. I hope some of our testimony addresses the problem of these surpluses and if the grain reserve might not have outlived its usefullness. As I have said before, I have no preconceived notions about a Farm Bill, but this is one area that we really need to take close look.

STATEMENT BY HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, there have been proposals put forth for possible changes in the wheat program. I am hopeful that the witnesses here today can come to some consensus about the best course this Congress can take to improve the program.

I would also like our witnesses to give us the benefit of their expertise as it relates to the export title of the 1985 Farm Bill. I am looking at several options to strengthen the export title, and would appreciate any assistance you could give.

STATEMENT OF HENRY NESHEM, PRESIDENT NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. Chairman and members of the committee, The National Association of Wheat Growers appreciates this opportunity to present its views on legislation to replace the "Agriculture and Food Act of 1981." I am Henry Neshem, a wheat farmer from Berthold, North Dakota, and president of the NAWG. Accompanying me today is Carl Schwensen, the association's executive vice president.

Mr. Chairman, the absence of a clear government commitment to expand trade opportunities for U.S. farmers has seriously undermined our agricultural economy. Ineffectual monetary and fiscal policies have created high interest rates, a leading to increased cost burdens for farmers and a strengthened dollar which has eroded the competitive position of U.S. wheat farmers in world markets.

U.S. farmers are currently experiencing the most prolonged economic decline since the 1930s. Land values continue to plummet, reducing net worth and the farmers' ability to finance their operations in the face of declining prices and shrinking markets. The wheat sector of the farm economy has become very export-dependent, but exports have declined in both value and volume since 1981, and prices at the farm gate are the lowest in six years.

The problem, as we see it, is that the world trading environment has changed and too few have recognized it. The situation is clearly not like the 1970s when world demand for grain was expanding and a weak dollar promoted the sale of our commodities abroad. Now, the reverse is true, and we see demand for U.S. commodities stagnating as the relative strength of our dollar prices our commodities out of foreign markets and promotes imports of competitor products into the United States.

Farmers are being told that the solution to these problems lies in more "market-oriented" farm programs, a term that has now become a code word for lower farm prices.

What we need more than anything are "profit-oriented" programs, and policies which will open-up new trading opportunities instead of sealing them off with damaging economic and foreign policies.

It is time to face the fact that our agricultural trade problems are largely beyond the scope of domestic farm legislation.

For example, a new farm bill cannot remove the heavy debt load of developing countries where increased trade potential exists, nor can it change the export policies or the internal support systems of our competitors. A farm bill cannot eliminate the national budget deficit or change the monetary policy of the Federal Reserve Board. It cannot improve our political relations with overseas markets, and it cannot erase the damage that has resulted from protectionist policies which have been implemented to shield segments of our domestic economy from foreign competition.

A farm bill can stabilize agricultural prices and farm income, and it can provide food security for our citizens and for millions of consumers overseas. It also can provide the tools to expand markets.

In short, there are a number of things that a farm bill can do well, and there is a long list of things that it cannot do at all. Fundamentally, it must be seen as a vehicle to promote farm stability and a strong national economy.

Mr. Chairman, we are convinced that strong commodity programs are essential to maintaining our agricultural sector, and we believe further that this approach will prove to be far more cost-efficient than the alternative of dealing with bankrupt farms, banks, rural businesses, equipment manufacturers and others in supply industries, not to mention the reduction in jobs and the dislocation of resources that would be part of such a policy course.

Simply stated, we believe that a strong wheat program will result in the avoidance of greater economic costs on the part of the government.

With this in mind, I would like to turn to a discussion of the wheat marketing situation, and what the NAWG feels can be done to rebuild and expand markets for American farmers overseas.

The outlook for U.S. wheat trade continues to deteriorate, despite the fact that more than 60 percent of each year's wheat harvest is produced for overseas markets.

World wheat production in 1984/85 is expected to be at a record 516 million metric tons, a 5 percent increase over 1983/84. World wheat trade is also expected to increase 5 percent this year with 114 million metric tons to change hands. Of this amount, the United States is expected to export 39.5 million metric tons or 35 percent of the total.

The United States traditionally has been a major supplier within the world wheat trade. Our market share has ranged from a low of 33 percent in the late 1960s, to a high of 48 percent in 1981.

With total wheat production by the five major exporting nations at an estimated 198 million metric tons this year, and the poor economic conditions of importers, competition within the world market will be fierce. Of major concern is the increase in production by the EEC. In 1983/84 the EEC produced 59.3 million metric tons. During this crop year production jumped to 76.4 million metric tons, or 8 percent more than was harvested in the United States. With its program of export subsidies, much of this additional production will be forced onto the international market. Granted, there is continuing talk of policy changes within the EEC, but the liklihood is for wheat area and production to hold at the recently increased level in the years ahead.

Similarly, wheat output in other major exporting nations such as Argentina, Australia and Canada can be expected to be sustained in future years given normal weather conditions. This means exporters will continue to attempt to force their products into a relatively stagnent world market.

Unless the right steps are taken, the United States stands to carry an increasing amount of excessive and price depressing stocks at a considerable cost to the government.

The question now becomes what programs and policies can be put in place to increase U.S. wheat exports while assuring an adequate level of farm income? Members of the NAWG have developed programs that will have a marked influence on our competitive position in the world. We urge you and your colleagues to consider these programs for incorporation into forthcoming agricultural legislation.

First, let me outline the major provisions of the farm program that the members of NAWG adopted in January.

> Target prices should be maintained at the current $4.38 per bushel or increased at the Secretary's discretion;
>
> Continuation of a non-recourse national loan at $3.30 per bushel, but with a variable repayment rate based upon the average state price received by farmers for their crop;
>
> Require a maximum 20 percent set-aside if carryover exceeds 700 million bushels in any one year;
>
> Implement a long-term conservation reserve;
>
> Establish farm bases on the amount of land normally planted or considered planted; and
>
> Provide government assistance during periods of declining world market share.

For the purpose of this hearing, I would like to focus on two components of NAWG policy which can improve our marketing opportunities.

The loan program adopted by the wheat growers has several important points that will not adversely affect farmer income while at the same time increase U.S. competitiveness. First, the producer may increase his income through better marketing; second, since fewer bushels will be forfeited to the government, program costs will be reduced; third, U.S. farm products would become more competitive in the international market; and fourth, the loan will not act as an umbrella for world market prices.

Under the program, a farmer would have the option to repay his loan at the average market price in his state which could be quoted twice a month. An example may help in understanding this feature. Say that after a farmer obtained a $3.30 per bushel loan, the state average price later dropped to $3.20 per bushel. He could then redeem the loan at $3.20 and market his wheat, and his total income would not have changed. Or, a grower could elect to settle his loan for $3.20 and hold his grain for a better marketing opportunity. In each example, the bushel would move into the market and not into the hands of the Commodity Credit Corporation where the high costs of loan forfeiture, lost interest and storage would be incurred.

This concept provides important flexibility in both farmer marketings and export trade. It promotes the movement of grain into trade channels instead of tying it up in government inventories and farmer-owned reserves. It also allows market forces to dictate the price of grain.

Importantly, this loan program "unities" our price support from the world market. It means that the price floor which competiting exporting nations have used for market protection essentially will be removed.

The second program that will have a marked influence on our level of exports and farmer income was produced through a joint effort of NAWG and U.S. Wheat Associates. In response to a strong dollar and the financial problems faced by many developing countries, the two organizations worked on improving existing export assistance programs. What developed is a set of programs designed and tailored to meet the needs of countries where there is a potential to increase U.S. wheat exports. The additional export effort could add 180 million bushels to U.S. wheat exports annually and reduce the estimated wheat surplus by 36 percent within five years.

These additional wheat exports would come at a cost of about $90 million each year. At the same time, $540 million would be saved in government supply-management costs, for a net savings in government expenditures of $450 million annually. Evidence demonstrates that such a sustained U.S. export effort could force reductions in competitors' wheat production and exports.

While 20 countries have been throughly examined under the study by NAWG and U.S. Wheat, certainly others would benefit through the same program of designing our export programs to meet the specific needs of our customers.

Still more could be accomplished through policy changes such as those proposed in the Helms bill which authorizes an export PIK program, establishes a "Food for Progress" initiative for developing countries, modifies P.L. 480 sales programs, and provides exemption from U.S. vessel requirements on certain export programs. These and other innovative programs are vitally needed to cope with the forces we face in international markets.

Mr. Chairman, We feel that three recommendations respond to changing macroeconomic and international market conditions, while placing ourselves in a position to benefit from increased trade when economic conditions in the world improve. We have been pleased to participate in today's hearings, and we look forward to working with your committee to ensure the enactment of sound agriculture policy for the future.

I want to thank you for the opportunity to present the views of NAWG and I will be happy to respond to any questions at the appropriate time.

STATEMENT OF DOYLE D. RAHJES, PRESIDENT, KANSAS FARM BUREAU, REPRESENTING AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation is the nation's largest general farm organization with a membership exceeding three million member families in 48 states and Puerto Rico. I serve as President of the Kansas Farm Bureau. I appreciate the opportunity to appear before the Senate Agriculture Committee regarding Farm Bureau's position on farm programs for wheat and our proposals for legislative changes under the 1985 Farm Bill.

Farm Bureau policy is debated, amended and revised by voting delegates from each of our member states. At our 66th Annual Meeting in January, our delegates adopted policies regarding farm programs in general and policies specific to wheat programs. Our general farm program policy states:

We support a farm bill which will:

(1) Maximize long-term opportunities for profit in agriculture;

(2) Reduce existing incentives for overproduction at home and abroad;

(3) Ensure price competitiveness for U.S. farm products in world markets;

(4) Provide opportunities to reduce stocks through production adjustments and/or expanded demand;

(5) Assure consumers of adequate supplies of efficiently produced products they wish to consume;

(6) Cause a supply reduction program to be implemented when carryover exceeds workable levels;

(7) Provide target prices as an income supplement for farmers to help them make the adjustment to a market-responsive agriculture;

(8) Provide loan levels for all major export commodities to facilitate orderly marketing and price competitiveness. These levels should be related to a 3-5 year average domestic price. Loan levels should not provide incentives for production that exceeds demand in domestic and world markets. These levels should be adjusted annually by no more than 10 percent; and

(9) Recognize that all commodities are interrelated and any change in supply, demand or price of one affects the others.

Wheat producers have operated under extremely difficult marketing conditions in recent years. The wheat industry has been confronted with high interest rates, an unexpectedly strong dollar and increased competition, some of which is directly subsidized, and government programs have not sufficiently improved those conditions. Production of wheat since 1981 has been in the 2.4 to 2.8 billion bushel range which includes the largest of several crops on record. This time period included the year of the Payment-in-Kind program which did not dramatically reduce wheat production overall. Exports since 1981 have trended downward and ending stocks have been above 1 billion bushels, reaching as high as 1.56 billion bushels in 1982. We now are approaching that excessive level once again.

Farm program policies must adjust to the existing market and offer an opportunity for improved conditions while effecting a transition to a market responsive agricultural system. Politically determined support levels have not allowed the appropriate interaction between the wheat and feed grain industries and are partially responsible for the massive carryover which plagues the wheat market.

As a result of these policies, Farm Bureau has developed a legislative proposal for the 1985 Farm Bill which is market responsive and fiscally responsible. We believe that by tying loan and target price levels to an average of market prices, the signals that producers receive when making production decisions will be founded in market reality, and not in political expediency.

I would like to offer more detail to the Committee on the provisions of our proposal that most directly affect wheat producers.

LOAN RATES

We support loan rates that are tied to a 3-5 year average of market prices for wheat, feed grains, rice and soybeans. We would set the loan rate at 75 percent of a five year average of domestic prices excluding the high and low valued years. To avoid wide fluctuations in loan rates, however, we propose that the rate be adjusted by no more than 10 percent in any year including the first year of the program.

We believe that a loan rate set in this manner will signal to our international competition that we will not provide them with long-term price protection. Instead of inflexible loan rates which have allowed foreign governments to expand production based on support levels that reduced their risks in the market, we will signal to the world that we will compete with them in a wider range of prices. This will make their domestic programs more costly and reduce their incentive to continue heavily subsidized programs.

TARGET PRICES

Farm Bureau supports continued use of deficiency payments as an income supplement to producers of the crops that currently have deficiency payments in their programs. We recommend freezing target prices for 1986 at the 1985 levels. In 1987 and thereafter target prices would be set at 110 percent of the five year average used to determine the loan rate. Adjustments to target price levels, however, would be limited to 5 percent in any year. We also support a $50,000 payment limitation that would apply to deficiency payments only.

This target price system will allow producers time to adjust to a more market responsive farm program while maintaining income levels for program participants. Necessary adjustments could occur gradually while attempts to expand exports and address the issues of international market access and subsidy practices can be confronted.

EXPORT MARKET EXPANSION

We believe that the area in which substantial improvement can be realized in agricultural profitability lies in the area of exports. We therefore have placed great emphasis on the need for a strong trade title in the 1985 Farm Bill.

Two traditional ways of enhancing exports have been through the judicious use of CCC export credits and the PL 480 or Food for Peace Program. These programs should be continued and improved. In view of the need for food, which has been made worse by the African famine situation, and the potential for economic development followed by better cash market opportunities, I believe that a much stronger PL 480 Program is currently justified.

Regarding CCC export credits, it is regrettable that the CCC Credit Revolving Fund, which was part of the 1981 Farm Bill, was never funded and activated. There are still valid reasons for incorporating the Revolving Fund in the 1985 Farm Bill with funding made available to make it an effective export tool.

An intermediate CCC Export Credit Program is needed to take care of export credit needs for terms of 3–7 years as provided for in the Agricultural Trade Act of 1978. This legislation should be more fully utilized.

The Blended Credit Program, which unfortunately has been saddled with the requirements of the cargo preference law, needs to be made a part of new farm legislation with an exemption from cargo preference. As a matter of fact, all agricultural exports should be exempted from cargo preference requirements whether commercial or government assisted. There are other ways of financing a strong merchant marine without harming agricultural exports. We should not harm farm exports in our efforts to have a stronger American flag fleet. Farm Bureau will strongly support legislation to exempt agricultural commodities and products from the cargo preference law.

There may be some barter opportunities with some countries that need food and have oil or other materials or commodities that we need. We should not ignore any such opportunities, but rather should seek ways to gain exports where such possibilities exist.

Regarding trade negotiations, we must give our trade negotiators the tools they need and our strong support to gain better market access and to resolve outstanding unfair trade practices such as export subsidies, which have eroded U.S. overseas' markets. In this respect, we would support what might be called a "bonus" export program.

Under such a program, "bonus" tonnage of farm commodities and products would be made available from CCC owned commodities to lower U.S. export prices to offset the advantage of competing countries which subsidize their exports.

ACREAGE REDUCTION PROGRAMS

We support acreage reduction programs that are triggered when carryover supplies exceed workable levels. For wheat, we recommend that the Secretary be required to call for an acreage reduction program when carryover is projected to exceed 4 percent of annual world utilization. The ARP programs should be large enough to assure a reduction in carryover supplies. Increased efforts to expand foreign markets under the trade title of our proposal and greater market competitiveness assured by flexible price and income support programs will result in acreage reduction programs used only to correct temporary imbalances, not as annual programs.

FARMER-HELD GRAIN RESERVE

We favor elimination of the farmer-held grain reserve. Grain farmers have learned that they cannot store their way to prosperity, and the reserve has exerted deterimental influences on livestock markets. The reserve has been used as a tool to temporarily prop up market prices in an attempt to reduce federal expenditures for deficiency payments. The buildup of supplies in the reserve has long-term negative consequences for both the grain and livestock industries. Without the reserve, we would never have accumulated the excessive stocks that gave need for a PIK program.

CONSERVATION

We are concerned that farm programs have provided incentives to plow up fragile lands. Our policy states, "We oppose economic incentives to artificially stimulate producers to bring fragile lands under cultivation. Any producer that brings such land under cultivation should be ineligible for any federal incentive payments for any crop in his entire farming operations."

We also support implementation of a conservation reserve program which offers producers contracts of seven to fifteen years under which erosion-prone cropland would be converted to less intensive uses such as pasture, permanent grass, legumes or non-crop bearing trees.

The policy that could best offer prosperity to U.S. agriculture would be a commitment to fiscal responsibility and reducing overall federal spending in order to get interest rates down, currency exchange rates in line and exports back into the world market. We therefore continue to support a freeze on government spending at 1985 levels.

We believe that our proposal will benefit the wheat industry as it provides the opportunity for profit to all of agriculture. The features outlined above allow us to move toward market orientation, provide continued assistance in the form of target prices, and expand export markets. Only in this way can we return agriculture to a healthy and balanced condition.

Farm Bureau will work closely with the Senate Agriculture Committee in developing a sound and fiscally responsible farm bill. I would be happy to respond to any questions.

STATEMENT OF ROBERT WAGER, PRESIDENT, AMERICAN BAKERS ASSOCIATION, ALSO REPRESENTING THE INDEPENDENT BAKERS ASSOCIATION, AND THE RETAIL BAKERS OF AMERICA

Mr. Chairman, and Members of the Committee, we are pleased to have this opportunity to testify on the 1985 Farm Bill. As major users of two of the most important agricultural commodities that are included in this legislation, wheat and sugar, we have a vital stake in farm policy.

At the outset, we want to state that we have great empathy for the plight of the American farmer, and we realize that we, as well as all Americans, have a need to maintain a productive and efficient agricultural economy for the nation. We want the nation's farmers to have a fair return on their investment, managerial talent, and their labor. However, we believe this return should come from the market, not from citizens' tax dollars.

We do not envy the difficult role in which you find yourself—the responsibility to fashion an acceptable farm bill, at a time when many segments of the farm economy are depressed, and there is a need to greatly reduce federal expenditures for farm programs. We urge Congress to resolve the farm credit problem concurrent with enactment of new farm policies. We hope that the recommendations that we make here today will help you in these difficult tasks.

Mr. Chairman, your bill, S. 616, which was introduced earlier this month, has much to recommend it. It is a step in the right direction for wheat and feed grain programs. We have not, however, had the opportunity to make a recommendation on it to our Boards. Accordingly, this statement is based on positions which the Boards approved earlier this year.

Four years ago, many of us here today sat at these same tables discussing proposals for commodity programs in the 1981 Farm Bill. With the benefit of hindsight, we can see that some of the assumptions on which those programs were based were faulty and, accordingly, that bill has not accomplished what Congress intended.

A major premise of the 1981 legislation was that increasing world demand for our crops had finally solved the problem of excess supply and that, consequently, the major issue of the 1980's would be how to increase production in order to avoid shortages. It was believed that voluntary acreage reduction programs would be sufficient to deal with temporary surpluses.

Another assumption was that Congress could mandate a rigid, long-term (four year) price support structure for agricultural commodities. How wrong we were! Events have demonstrated that weather, international currency fluctuations, technology and changes in the business cycle are more powerful influences on agricultural markets than the laws written by Congress. Thus, one lesson to be drawn from this experience is that Congress should not attempt to specify price support levels over a long period, but rather should adopt a flexible approach with ample room for adjustment to domestic and international market conditions from year to year. This will assure that price support policy is closely geared to changing market realities.

So far the 1980's have been characterized by substantial oversupply of wheat and other major crops. Experience has shown that voluntary programs are ineffective to reduce production and are very costly. Both participating and nonparticipating farmers simply increase their acreage bases as much as possible, and strive for maximum yields to offset the reduced acreage.

We have also learned that when we implement such acreage reduction programs, farmers in the rest of the world expand production, thereby negating our adjustments, increasing the cost of our program, and reducing our world market share. Therefore, Congress must face the fact that voluntary acreage reduction programs are inconsistent with limiting the cost of farm programs and are not the answer to the oversupply problem.

POLICY GOALS, 1985–89

We believe that Congress should aim for three basic goals in the 1985 Farm Bill:

1. Commodity programs must become truly market oriented. Congress and three successive Administrations have claimed that previous laws were market oriented but, in fact, government interference in the agriculture market has increased in recent years. Now, government must truly reduce its role and allow market signals to determine production levels for major crops.

2. Programs should be designed and support levels established in the 1985 Act consistent with the objective of spending no more than $6 billion per year, as an average over time, on all commodity price and income support operations.

3. While Congress is reducing the federal role in agriculture, we must take care to avoid extreme swings in commodity prices. The roller coaster prices of the early 1970's had a severe impact on bakers, especially on our small- to mid-sized bakers. Government has a responsibility to cushion low prices with an economic safety net, to provide some stability for producers. At the same time, government should provide some protection for consumers against excessively high prices, which are an economic shock to business budgets and to family pocketbooks.

FARM SECTOR ECONOMIC REALITIES

As Congress begins to consider the 1985 bill, it is important to keep in mind certain key facts about the structure of the farm sector and the growth of farm program costs. Among them are the following:

Four percent of our farms (107,000) produce 48 percent of total farm output and had average family incomes of $192,000 per farm in 1983.

Some 24 percent of our farmers in the $40,000 to $200,000 gross sales category, produced 39 percent of all farm output in 1983, earned most of their family incomes from the farm, and have average family incomes of about $27,000, mostly from farming.

About 72 percent of our farmers produced only 13 percent of all farm output in 1983 and received 80 percent of their spendable income from off-farm sources. These farmers had average family incomes from all sources around $19,435 in 1983.

The largest 10 percent of U.S. farms accounted for over 50 percent of direct government payments in recent years, while half of all our farms got only 10 percent of all federal farm payments.

Making these payments, mostly to large farmers, and conducting price support operations cost the federal government $29 billion in a single fiscal year (1983) under the 1981 Act, in both direct expenditures and payment in-kind.

Exports are key outlets for our production, taking 60 percent of wheat production, 40 percent of soybeans and 50 percent of cotton in a typical year. This makes our agricultural sector very sensitive to outside influences such as the value of the dollar, world credit conditions, and trade restraints.

These facts lead to three important conclusions:

1. That most of those who produce the bulk of agricultural commodities are relatively prosperous, yet they receive over half of all Federal payments as income supplements. Some of these large farmers are in financial trouble, however, and should be helped by better credit policies.

2. That the majority of producers, with lower incomes, receive very little in government payments. Federal farm programs are increasing the income disparity between large and small farmers, not reducing it; and

3. That it is vital to both large and small farmers that their crops be competitive in world markets because exports provide a large part of the income for both

groups. This means not only offering our crops at realistic prices, but also providing open access to our market for the produce of other nations.

PROGRAM RECOMMENDATIONS

Loan rates.—The loan program has been part of the law for over 50 years. At various times, loan rates have served as a price floor, marketing tool, income support mechanism and price stabilizer.

But in recent years, Congress has raised the rate above market clearing levels, and substantially above variable costs, so that producers are guaranteed a profit. When there is no risk, farmers are encouraged to expand production. Market signals can be ignored.

The USDA estimates that loan rates now cover average variable costs for over 98 percent of all wheat and corn produced. This means that a large portion of all producers are assured a return well above variable costs. Excessively high loan rates together with escalation of the value of the dollar are the main reasons for current surpluses of some crops and our weak position in world markets.

Accordingly, we recommend that loan rates be brought into closer alignment with market conditions by adapting the soybean loan formula to wheat. Under this approach, the wheat loan rate beginning in 1986 would be based on 75 percent of the average cash price received by farmers for all wheat in the past five years, excluding the high and low years. A minimum rate could be established from year to year, as it is for soybeans, but that minimum should always be lower than anticipated market prices. Under the proposed formual, the loan rate would gradually move up or down from year to year as prices rose or declined. This would provide considerable stability for market prices, while providing the price flexibility so badly needed to compete abroad.

Further, we recommend that the USDA explore the possibility of revising the schedule of premiums and discounts for wheat quality. The USDA has not reviewed this schedule for many years. During this time, wheat quality has tended to deteriorate, with growing emphasis on yields. A new schedule could provide greater incentives for higher quality wheat, thereby benefiting both domestic and international customers.

Target prices.—The current target price program was introduced into the law in 1973. The theory behind it was that by separating the price support and income supplement functions of commodity programs, loan rates could be reduced to increases exports, and the need for supply control programs would be decreased.

But it has not worked out that way. Target price payments have had the effect of inflating land prices and production costs. They have encouraged farmers to expand production, even under surplus conditions, and have been very expensive to our national budget. Target price payments for wheat cost the taxpayers over $1.5 billion for the 1984 crop. For feed grains, 1984 payments will approach $1.75 billion.

In this time of severe budget stringency, target prices must be substantially reduced, starting with 1986 crops, and should be phased out over the next four years. Moreover, payments should be directed away from large, prosperous farmers who do not need them, and from small producers who obtain most of their income from non-farm work, to small and mid-sized farmers who depend on farm income for a living.

Acreage reduction programs.—Voluntary acreage reduction programs have been a part of the law for over 50 years. Their asserted purpose is to adjust supply and demand to avoid surplus stocks and hence, large government costs.

But the history of the past 25 years has shown that voluntary acreage reduction programs have been largely ineffective. They tend to shelter less productive farmers, while encouraging others who do not participate to produce to their full capacity. Moreover, USDA research shows that when producers join a voluntary acreage reduction program, they increase cultivation on their remaining land, thereby increasing yields. The USDA has found that for every 10 percent of the acreage base idled, acreage yield on the remaining acres increases three percent for corn and two percent for wheat.

Four years ago, we recommended that Congress terminate authority for voluntary acreage reduction programs. Our belief has been strengthened by the lack of results from this program in recent years. Once again, we urge that Congress end this program.

It is obvious that in the short run there is an excess of resources devoted to crop production in the United States. We must, however, address the problem of overproduction in a more rational manner in an era of reduced world demand for U.S. grain and relatively static domestic demand for the basic agricultural commodities.

At the same time, we realize that there is a need to provide some transitional help for the farmer who would be affected by the lower loan rates and reduced target prices that we are suggesting. Therefore, we propose a long-term land retirement program similar to the Soil Bank program of the 1950's. We suggest a program that would involve a commitment on the part of the farmer to retire land for a five year period or more, with escape clauses so that the land could be taken out of retirement if there was a food shortage. The program would be aimed at those areas most in need of soil conservation.

Such a program should be operated on a bid basis to provide the most conservation for the least dollars, and maximum effect on farm output during the transition to a full production farm economy. This land, which would have to be planted to soil-conserving uses to qualify, would thus have a chance to be restored and rebuilt, while remaining availble for future needs for world food production.

Commodity reserves.—The farmer owned reserve was added in the 1977 law. Until recent years, it has functioned in the manner intended to reduce supply and price instability, and to improve our national reputation as a reliable supplier.

In recent years, however, the reserve has been used to support prices by raising the entry loan rate, and by allowing the build-up of excessive stocks. The corn erserve increased from 185 million bushels in 1980–81 to 2.8 billion bushels in 1982–83. Similarly, the wheat reserve rose from 360 million bushels in 1980–81, to 1.1 billion bushels in 1982–83.

We support the farmer owned reserve program. We believe it has a necessary and proper place among our commodity programs. We recommend that it be returned to its original purposes.

To achieve this, CCC and farmer owned reserve stocks should be capped at 700 million bushels of wheat, and the reserve entry price limited by law to no more than five percent above the current loan rate. At the same time, the release price should be kept reasonable, no more than 150 percent of the entry price. Correspondingly, when the reserve falls below 300 million bushels, the Secretary should take measures to replenish reserve stocks.

Permanent repeal of the Wheat Certificate Program.—Section 303 of the current law suspends application of the Wheat Certificate Program until 1986. This relic of another era should finally be terminated. The bread tax should be permanently repealed! Until that can be done, Congress should act quickly on an amendment to present law, or by joint resolution, to suspend all USDA actively leading to a referendum on an unworkable program for the 1986 crop of wheat, and to postpone the referendum now required by law for at least six months.

Sugar policy.—We support the position of the Sugar Users Group. Thus, we favor a substantial reduction in the sugar support price, and the elimination of quotas on imported sugar. Consistent with our other positions, we believe the support price should be based on the same formula as for wheat—75 percent of recent average prices. According to our calculation, this would mean a price reduction of 7–8 cents per pound within a few years, leading to a sugar loan in the area of 10–11 cents per pound.

Dairy policy—We believe that dairy support levels should be reduced until the Federal government is no longer buying surplus dairy products beyond those needed for legitimate food programs. Price support reductions scheduled for April 1, and July 1, this year should be made, and would set the stage for a better dairy policy beginning at or near the end of this year, with enactment of the farm bill. Since dairy product prices have been more dependent on the Federal support system than some other products, a longer transition to a market oriented support level may be needed.

Mr. Chairman, we appreciate the opportunity to present our views to this distinguished panel. We will be happy to answer any questions you may have.

STATEMENT OF V.B. MORRIS, NATIONAL SECRETARY, AMERICAN AGRICULTURE MOVEMENT, INC.

The American Agriculture Movement, Inc., in convention and meetings held across the country assembled and proposed the following to be included in the 1985 farm bill.

The 1985 farm bill must include:

Production Controls: establish a mandatory program through referendum by farm operators with quantity controls (bushels, bales, pounds, etc.) in addition to a 10% acreage reduction. Production levels should be established according to inventory stocks.

Loan Rates: Loan rates set at not less than 70% of parity (the average cost of production) on all storable agriculture commodities including milk. Minimum non recourse loan term shall be 36 months with loan rates increasing 2% annually thorught 1996 and remain at 90% parity thereafter; storage rates for on-farm storage and commercial storage shall be the same.

Proposed annual loan rate increase

[In percent]

Year	Parity	Year	Parity
1986	70	1993	84
1987	72	1994	86
1988	74	1995	88
1989	76	1996	90
1990	78	1997	90
1991	80	1998	90
1992	82	1999	90

Food Reserve: A national food reserve shall be established (to guard against food shortage) and released only when a food shortage has been declared by the House and Senate agriculture committees. Inventory stocks of each commodity shall be set by the Ag secretary and shall be managed by the Commodity Credit Corporation (CCC).

Imports: All agricultural products (livestock, poultry, dairy, fish, vegetables, etc. . . .) shall be labeled as to the country of origin. Any processed or co-mingled product shall be labeled as such. All imported products shall have equal inspections and meet same standards as domestically produced products. Products containing residues of U.S. banned chemicals shall not be allowed to be imported into the U.S. Red meat imports shall be controlled by a price trigger and reflect a parity level consistent with other ag commodities and no ag product shall be allowed entry at less than the domestic price as provided for in the G.A.T.T. (General Agreement on Tarriffs and Trades) anti-dumping agreements.

Exports: The U.S. should use subsidies to maintain our market share in world trade and this device should include export PIK, adequate credit, interest-buy-down, etc. U.S. subsidies should match those used by foreign governments hidden or direct.

Farm Tax Loopholes: There should be a maximum write-off of $20,000 for non-farm income through tax-loss farming.

Soil Conservation: The existing soil conservation programs shall be continued and expanded in problem areas.

Farm Credit (FmHA): Reschedule farm debt on a case-by-case basis to allow the operation to meet cash-flow requirements necessary to continue operation. Terms of the loan (20 year maximum) shall be established by a county committee. The county committee shall be elected by farm operators in a county referendum and shall be a functioning loan committee of no fewer than five people! Three of which must be farm operators, elected by their peers which will in turn appoint two others, one from the financial community, and one holding a public office. New applications must be accepted for consideration and any economic emergency (EE), emergency disaster (EM), or operating (OL) loans not acted upon within 60 days must be automatically approved.

ASCS: County ASCS committees shall make all decisions relating to soil and water conservation practices, including cover crops, haying and grazing dates, etc. The ASCS community committee must be continued with no fewer committees than in place in 1980.

STATEMENT OF MARSHA JONES, NATIONAL WHEAT COMMODITY CHAIRWOMAN, WOMEN INVOLVED IN FARM ECONOMICS

Mr. Chairman and members of the Committee: I would like to thank you for giving me the opportunity to address this committee.

I am Marsha Jones, and I'm here today to represent Women Involved in Farm Economics (WIFE). I am the National Wheat Commodity Chairwoman elected by the wheat producers of WIFE.

My husband and I farm and ranch in northeastern Colorado. I am an active producer that participates in the cropping procedure. Our main commodity is wheat.

We entered into the farming profession during the early seventies when the government was wanting the American producer to produce as much wheat as possible for export. Today it appears that the administration is again asking us to produce for the export market, this time with the intention of marketing this wheat far below the cost of production.

The wheat program that will be written into the Agricultural Adjustment Act of 1985 is of utmost importance to the survival of the American wheat producer, their communities and our nation's economy.

I would like to inform you that the wheat producers of this nation are in trouble. We have been producing wheat for several years below the cost of production. We have been borrowing against our assets to stay in business to produce the food for this nation and the world. Let me ask you, how long do you think we can do this before we no longer have assets left to borrow against and can no longer find the operating capital that is needed to produce this wheat?

WIFE feels that a cheap food policy at the expense of the producer cannot go on any longer. The "American consumer", a title which includes farmers who are the largest consumer in this nation, has the cheapest, most bountiful supply of food in the world. If wheat were $6.00 a bushel, a pound of wheat would cost a thin dime. That would make the wheat in a loaf of bread worth 8 cents. A one pound loaf of bread would cost 58 cents up 4 cents from the cost of a loaf of bread in 1983. In 1983 the total price spread between the farm and retail store for a loaf of bread costing 54.2 cents was 49.1 cents, a record high. (USDA figure)

Common sense tells us that exporting commodities below the farmers cost of production will not help our nation's economy.

The administration's proposal for the Agricultural Adjustment Act of 1985 is claiming that a market oriented program will permit the U.S. farmer to challenge his competitor in world markets, but everytime a bushel of wheat is sold at home or abroad for less than it costs to produce it we are giving away the real earned wealth of our nation.

Reducing the federal deficit in an effort to balance the budget, which would in turn devalue the dollar would be a more effective method of making U.S. agricultural commodities more competitive on the world market. Our foreign buyers are paying 30% more for a bushel of wheat today than they did three years ago but American wheat producers are being paid 20% less than they were three years ago because of the value of the dollar.

WIFE would like the wheat producer to be able to enter into a fair marketing system, but we cannot compete with the treasuries of other nations who highly subsidize their producers. We cannot compete with governments who must export and will do so at any price. We cannot produce at U.S. prices and sell on a world market. If we are to become a market oriented supplier and sell our wheat at world prices the government must share the cost.

We feel that until the wheat producer of the U.S. has regained a larger share of the world market that a supply management system must be implemented. It must be a mechanism that truly will reduce the production at the market place. WIFE supports a bushel allotment to control production. The acreage reduction system of the past does not appear to have worked. Cutbacks based on bushel allotments would prove to be more effective than acreage reduction cheaper to control and would create a more accurate reduction. A 30% reduction would truly mean 30% less wheat on the market. A bushel allotment reduction should not be left to the discretion of the Secretary of Agriculture who is far to vulnerable to pressure from cabinet officials, state departments and social groups but should be based on a scale contingent upon an annual review of the actual carryover wheat stocks.

WIFE opposes the caps proposed by the administration and feel they would make any reduction program ineffective by eliminating incentives for larger producers to participate.

WIFE supports a target price that will reflect a realistic cost of production plus a profit with an escalating clause using the cost of living index. A standard of economy must develop in which when the product of an hour of labor in agriculture will trade for an hour of labor in any other sector of the economy.

In developing the Agricultural Adjustment Act of 1985 a system of price and income protection to avoid disaster for the nations producer must be formulated. Loan rates must be set at a realistic cost of production (not less than 75% of parity) and they must be recourse loans. When we say loan we mean just that. The money is paid back with interest. It is not a subsidy or a gift by any stretch of the imagination.

WIFE supports a normal crop acreage (NCA) as a requirement for support prices, loan, target, and disaster. A consistent and constant NCA is necessary to implement an efficient, fair and realistic reduction program in years when the carry over stock signals a reduction is needed.

Reserves were designed to insure a constant and adequate food supply for our American public and a percentage of the world population. As this insurance reserve is considered a necessity, it therefore needs to be protected. To protect the reserve, and at the same time not jeopardize the farmer's already low income level, this reserve must be farmer held. The farmers who are storing the grain must receive adequate storage payments.

Reserves can and do act as an interim financing test for farmers who enter the reserve, therefore proper management of released grain is essential. The committee must provide a mechanism to prevent massive dumping in the market when the release level is triggered. Continuing storage payments is a possible answer.

WIFE supports the P.L. 480 program. It has proven to be an effective program for foreign assistance to the under developed countries plus has assisted in developing long-term markets for our wheat producers. WIFE recommends that funding be increased, and that flour and any other by-products from alcohol fuels be added. If we are to become market oriented, the markets have to be developed. We support adequate funding to be provided to educate and inform the recipients of the nutritional value of our product and its by-products.

We are strongly opposed to having agricultural products singled out and used as a political tool in the impositions of embargoes rather real or implied. The U.S. government has weakened our export markets. We have lost our credibility with our foreign buyers, and have been viewed as not being a dependable source. We recommend that agriculture not be singled out for embargo action unless it is a complete embargo of all U.S. technology and products. We recommend the reauthorization of embargo protection provisions adopted in the 1981 Farm Bill.

WIFE has diligently worked in Washington during the writing of the last two farm bills. We appreciate the opportunity to participate in our governmental processes. Our goal is a strong agricultural economy which would create a strong national economy. We understand the task you have in writing this complex piece of legislation and we know you will remember that it could either make or break the American family farm as our nations food producer.

Thank you for your interest in the welfare of America's agriculture.

[The following material was furnished by George Levin; see p. 310 for his oral presentation:]

[Reprint from Farm Futures, March 1983]

Tampering With Demand

(By David Skoloda)

President Reagan's signature on the bill establishing "sanctity of contracts" and the new dose of blended credit for exports were both encouraging signs that the administration is committed to boosting agricultural exports. But the ink had barely dried on President Reagan's signature when a squabble between the U.S. and China created new concerns about overseas markets.

Talks between U.S. and Chinese negotiators on ways to limit Chinese textile exports to the United States broke down and the U.S. said it would impose unilateral restrictions on imported Chinese textiles. China responded by saying it would stop purchases of U.S. cotton and soybeans and cut down on imports of other unspecified agricultural products. Wheat growers were not reassured because they weren't mentioned. China is our biggest market for wheat. There is plenty of wheat available in the world, so if the Chinese want to carry out their threat to cut their use of other U.S. products, they could meet virtually all of their wheat needs elsewhere.

There is serious concern that the U.S. could become a supplier of last resort to China much as it has become for the Soviet Union in the wake of the 1980 grain embargo.

The loss of Chinese business would have an obvious bearish effect on the commodities affected. There is still a chance, of course, that further negotiations may smooth over the current dispute.

If that happens, and we hope it does, the U.S. is still left with a lesson for an agricultural system basing its hopes for prosperity on export markets. The lesson is this: Unless agriculture receives an unconditional No. 1 priority rating among the special interests vying for attention in trade policies, such scares or setbacks as the current situation with the Chinese will continue. The reason is that our agricultural products are sold so uniformly throughout the world that there are few nations with which we might have a trade dispute who could not use agricultural trade as a convenient retaliatory lever. The next case may be Japanese reaction to the U.S. legislation requiring "domestic content" in automobiles. There is no way U.S. farmers could meet a similar Japanese requirement on wheat, a U.S. Wheat Associates spokesman pointed out.

Sanctity of contracts.—the law requiring that delivery be made on contracts up to 270 days following purchase unless there were a declaration of war or national emergency—is a gain for agriculture. But it is not the whole answer to agriculture's vulnerability as long as significant overseas markets remain in peril because of government actions. So if anyone, particularly a textile or auto worker, gives you any guff about the "crop swap," you could just tell them that when the government tampers with demand by alienating markets, it must then assume a responsibility to alter the supply, which is essentially what has happened to bring about the PIK program.

[Reprint from the Wall Street Journal, Nov. 28, 1980]

As World Demands More U.S. Grain

(By Terri Minsky)

Washington.—The U.S. can no longer be breadbasket to the world.

That was the conclusion of the Agriculture Department's 57th annual outlook conference here last week, where officials and guest experts described the farm and food situation in such bleak terms as "precarious," "dangerous," and "worse than ever before."

"Food will be in the 1980s what oil became in the 1970s—scarce and expensive," said Gary Ellis, commodities analyst with the Illinois Agriculture Association. Unfortunately, U.S. agriculture policy makers for 50 years have based their subsidy, price-support and food-aid programs on the notion that U.S. farmers produce more than domestic and export needs require.

No longer, the outlook confernece speakers said, maintaining that the Reagan administration will have to choose between unprecedented large jumps in food prices for U.S. consumers and grain-trade restrictions to its customers abroad.

THE COMING CRUNCH

"What it gets down to is we've only got so much grain," said Thomas Hieronymus, agricultural economics professor at the University of Illinois. "Are consumers willing to pay more for their food to keep the grain at home than importing countries are to ship the grain there?" In such a standoff, the U.S. consumer is bound to lose. Mr. Hieronymus and others said, since countries with a growing population and improving diet will meet any price. "And then God help the consumer," he commented.

The newly minted buzz phrase for the occasion was "food security." Chart after chart followed by a series of graphs showed how the world food supply is anything but secure.

The U.S. accounts for 60% of world grain trade. Its exports have grown an average of 12% a year in the 1970s. But grain production rose only about 5% a year at the same time, so that by the end of the 1970s, U.S. farmers were selling nearly every bushel of grain they harvested, most of it for export.

VORACIOUS HORDES

But the world's appetite continues to grow, noted Howard Hjort, the Agriculture Department's chief economist. Demand for U.S. exports of grain should increase by 8% a year for the first half of the 1980s, he said. Some found his estimate conservative. "Someday soon the Chinese will find out how good a piece of ham between two pieces of bread tastes, and then you'll see some real demand" (as China imports feed grains for raising livestock), one commodities analyst said in an aside.

But crop production won't keep stride. "We're using just about all the available land there is," Mr. Hjort said. Walter P. Falcon, director of food research at Stanford University, added that the more productive seed hybrids are "15 years down the road."

Terry Francl, agricultural economist at Continental Bank in Chicago, didn't find the situation so serious. "Hey, we're talking about a free-enterprise system here," he said, "Next year we'll stand around and wonder where all those farmers found all that land they planted."

EXPENSIVE FEED

Some livestock analysts envisioned acres of cattle pastureland being plowed for crops next year, since their grain analyst counterparts predicted a $4 and even $5 price for a bushel of corn next spring, compared with $2.50 a bushel earlier this year.

"Nobody can afford to feed animals $4 corn," said Bob Holbert, livestock analyst for ContiCommodity Services Inc. Added another analyst, "It takes less land and less grain to raise hogs and chickens anyway. Beef is going to go the way of big automobiles."

The weather emerged as the prime factor in forecasting supply, as every outlook speech began with the preamble: "If the weather is good next year. . . ." It wasn't this year, as drought and searing heat cut crop yields sharply. By next fall, grain stockpiles accumulated in times of overproduction will have fallen 40% to little more than a month's supply.

"We moved from surplus to scarcity with one fell swoop," said Willard Cochrane, University of Minnesota agriculture economist. Since it will be difficult to build up grain stocks in the near future, he said. "We're looking at inflation driven by food prices." Food prices make up one-fifth of the consumer price index. Mr. Cochrane and others saw the cost of food climbing above the 12.2% increase forecast by Agriculture Department economists earlier in the week. "And they're going through the roof if the weather's dry again," he said.

This could be, meteorologists on the weather-outlook panel warned. "Dryness prepares the way for more dryness," said J. Larason Lambert, an Agriculture Department meteorologist as he waved a pencil over Kansas, Oklahoma, Missouri and Arkansas on a U.S. map. These are corn and wheat growing states whose soil remains too dry to nourish crops properly.

Worse than rising food prices, though, would be prices that jumped back and forth unexpectedly in concert with the varying sizes of China's or the Soviet Union's grain imports, said Carol Tucker Foreman, an assistant secretary of agriculture. "That would be intolerable to the consumer pocketbook."

Expecting a clamor from grocery shoppers, Marvin Duncan, agricultural economist at the Federal Reserve Bank in Kansas City, observed, "Reagan says he'll lift the embargo on grain shipments to the Soviet Union. By the middle of next year, he may wish he'd left it on and had another one besides." Richard Crowder, Pillsbury Co. corporate economist, said the U.S. "wasn't above protecting its consumer from vagaries of the market," citing price control guidelines and four embargoes applied in the past eight years.

WHO EATS FIRST?

The outlook speakers were certain that Agriculture Department programs born in the midst of plenty wouldn't likely survive the new supply-demand ratio. They said food-aid programs probably will be cut sharply. "How can we feed the poor at home and abroad before ourselves?" Mr. Cochrane asked.

Subsidies for making gasohol, a fuel that is 90% gasoline and 10% alcohol distilled from corn, are likely to face similar budget surgery. Even the grain-reserve program, originally designed to keep burdensome supplies of grain from depressing farm prices, may be excluded when the farm bill is rewritten next year, since the government would have to match the market price for grain to get farmers to store it rather than sell it.

Richard Lyng, head of President-elect Reagan's Agriculture Department transition team, said he would take copies of the outlook conference speeches and give them to the new Secretary of Agriculture. He wouldn't take that job himself, he said, even though he has been named as a likely candidate. "After listening to what you have to say," he said to the speakers, "I don't know why anyone would want the job."

RELIGIOUS COALITION URGES FARM LAW CHANGES

The Interreligious Taskforce on US Food Policy, a cooperative effort of 27 national Protestant, Catholic, Jewish, and ecumenical agencies, recently voiced its support for new legislation to focus federal farm program benefits on small and moderate-sized family farms in testimony before the Agriculture Committee of the House of Representatives. Complementary program changes to reduce incentives for investment in farmland by nonfarm interests were also endorsed.

Noting a disparity between policy goals and policy design and implementation, the Rev. George A. Chauncey, chair of the Taskforce, observed that, "In 1977, Congress reaffirmed its intention 'to foster and encourage the family farm system of agriculture,' yet the working of current tax rules and commodity and credit programs virtually assure the steady decline of that system."

In its latest position paper, "US Family Farm Policy: Substance or Rhetoric?," the Taskforce directs its attention to the reauthorization of the major farm programs in the omnibus food and agriculture bill now before the House and Senate Agriculture Committees. The Taskforce recommends that new commodity program legislation make possible equitable returns to labor and investment but limit price support to a sufficient volume of production to yield a labor and management income for each producing family equal to median family income (or some other specified level). Nonfarm investors, whether individual or corporate, should be intelligible for program benefits, according to the Taskforce.

The position paper includes a report from "An Interreligious Conference on Public Policy and the Structure of Agriculture" held last December. That group of 100 persons from 13 denominations and 5 ecumenical organizations agreed on a definition of family farms limited to those which combine riskbearing, management, and a majority of the farm's labor within the members of the operating family. The conference endorsed changes in public policy which would actively encourage an agriculture based primarily on small and moderate-sized family farms.

Don Reeves, a Nebraska farmer employed as a consultant by the Taskforce, pointed out that the Taskforce position both echoes and builds upon a major finding of the recent USDA study on the structure of agriculture. The final document of that study, entitled A Time to Choose, concludes that virtually all efficiencies of size are reached on moderate-sized farms and that existing policies and programs which encourage further expansion and/or nonfarm investment are both inflationary and an inefficient use of resources. The report calls for an end to federal subsidies "which encourage and even reward the acquisition and holding of farmland in quantities beyond that necessary for an efficient-sized production unit."

Reeves also called attention to a recent study on agricultural land ownership and community structure in California's Central Valley. That study showed that declining rural communities are regularly associated with a predominance of large farms in the surrounding area, and even more closely correlated with extensive absentee ownership. The Taskforce has called on Congress to mandate a new research initiative to further explore the relationship between the structure of agriculture and the validity of rural communities, in diverse regions and for various types of farming.

Concluded Reeves, "Our nation's agricultural system, based primarily on resident family farms of modest size, has served us very well. It has proven extremely productive and contributes a great deal to the life of many rural communities. We can find no justification for policies or programs which even inadvertently encourage or subsidize concentrated or absentee ownership of farmland."

MARCH 29 HEARING—COTTON ISSUES

Statement of Hon. Edward Zorinsky, a U.S. Senator From Nebraska

Mr. Chairman, cotton is not a crop produced in my State of Nebraska, but I am aware that cotton producers face many of the same hardships that confront producers of corn, wheat, and other commodities.

Cotton producers—like other producers—in the United States are heavily dependent on export markets. Like other agricultural exports, cotton exports are at relatively low levels because of the high value of the dollar and the unfair trade practices of other nations.

Export shipments of cotton for the 1984/85 marketing year are estimated to total about 6.5 million bales—a slight decline from the export shipments of 6.8 million bales last year. I note that, with the exception of the 1982/83 marketing year, exports this year will be at the lowest level since 1980/81 and nearly 3 million bales less than the shipments in 1979/80. The reduced level of cotton exports has made it difficult for cotton producers to make a profit.

Many cotton producing States are represented at this hearing. The testimony that will be presented will guide us in developing the cotton program that will be included in the 1985 farm bill.

I look forward to reviewing the testimony of today's witnesses.

STATEMENT OF HON. MITCH MCCONNELL, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman: While Kentucky is not a cotton producing state, I do recognize that the outlook for cotton is bleak. Excessive stocks resulting from a record cotton crop in 1984, low world prices, and ever-increasing textile imports have all played a part in this difficult situation. Many of our problems result from the record level of world cotton stocks; particularly worrisome for the United States cotton industry is record levels of cotton production in China, whose cotton production has tripled to almost 24 million bales in just 5 years.

The problems faced by the cotton industry are symptomatic of the crisis which faces parts of the feed grain industries. The strong dollar abroad, excessive interest rates, overinflated land values and sluggish world demand for U.S. cotton products has placed the cotton industry in its worst situation in years. The ultimate solution to the problem lies in restoring the profitability to agriculture-in developing a fiscal policy which rewards our farmers for their abilities to produce agricultural commodities cheaper than any other country in the world rather than penalizes them for overproduction. I hope these proceedings today give us some insights as to how we might accomplish this.

JOINT STATEMENT OF SAMUEL B. HOLLIS, L. SYKES MARTIN AND JOHN S. BARR, III, NATIONAL COTTON COUNCIL OF AMERICA

I am Samuel B. Hollis, a cotton warehouseman from Memphis, Tennessee, and president of the National Cotton Council.

As the central organization of the cotton industry, the Council represents producers, ginners, seed crushers, warehousemen, merchants, cooperatives, and textile manufacturers in 18 states.

In January, Council delegates unanimously adopted a number of resolutions relating to the government cotton program. They essentially favor a market-oriented program that differs very little from the 1981 farm law's cotton title.

Other members of our panel will explain how we arrive at our resolutions and give you some background on several key proposals. But first, a few observations about the economic environment in which our policy resolutions were adopted.

Beginning with the 1966 crop, the government cotton program was changed to tie our price support loan to the world market price. This policy was continued through the 1981 act, so cotton has had a bona fide market-oriented program for almost two decades now.

We fared well under the program through the 1970's but then began to experience problems in the '80s.

What happened?

Two changes have had a profound impact.

One is the dollar exchange rate. Chart 1 shows the dollar exchange rate index as measured against a cotton trade-weighted average of other currencies. As you can see, the index since 1980 has increased more than 43 percent . . . and this is not only beginning to affect our export market, but also has stimulated a virtual avalanche of cotton textile imports.

From 1973 to 1984, the growth rate in cotton textile imports was just over 9 percent annually. From 1980 to 1984, it escalated to just under 16 percent. But last year, the growth rate leaped to 29 percent.

For an idea of the damage this has done to cotton's domestic market, look at this chart. In 1984, the domestic market consumed 8.2 million bales. But of this 8.2 million, just a little over 5 million was supplied by U.S. mills. Imports took the rest.

Now let me show you where these recent trends could lead us.

If the import growth rate recedes to the long-term trend of 9 percent, U.S. mills' cotton consumption will be 4.3 million bales in five years. If the 16 percent growth rate of 1980–84 continues, the consumption figure will drop to only 2.8 million bales. But look at the final scenario. If the 1984 trends continues, our domestic market will be totally wiped out by imports in five years.

Gentlemen, the dollar problem *must* be addressed if you are to devise a workable farm program.

The other major change in cotton's economic environment can be summed up in a word—China.

In the late 1970's, the Chinese government instituted policies aimed at developing self-sufficiency in fiber production and in becoming a major exporter of textiles. They have succeeded on both counts. In the last five years, they have increased their cotton production by 176 percent and have become the No. 2 source of U.S. textile imports.

At the same time, they have piled up 18 million bales of stocks that are depressing world prices and causing uncertainty.

This drastic change in the world cotton situation was in no way influenced by U.S. farm policy, but was simply the result of action by a central government. Council Board Chairman Duke Barr will discuss the need for separate consideration of this factor when he assesses foreign market competition and its implications for U.S. cotton policy.

Mr. Chairman, the greatly over-valued dollar and the developments just described in Chinese cotton and textile production have hindered the effectiveness of the 1981 cotton title. And unless they are dealt with, they will also hinder the effectiveness of the 1985 farm bill.

We hope this background will be helpful in understanding our recommendations.

All segments of our industry have been involved in the final adoption of our resolutions, but the basic work began within the producer segment of the Council. The process is extensive, broad-based, and has invovled producer leaders from all across the Cotton Belt. To tell you more about that process, I want to introduce the chairman of the Council's Producer Steering Committee, Sykes Martin—a producer from Courtland, Alabama.

Mr. MARTIN. To arrive at our recommendations, discussions began some 18 months ago in the Council's Producer Steering Committee—which is composed of a producer delegate from each state plus the Council's five producer directors and their elected officers.

Because we thought it was essential to secure input from every significant area of the Cotton Belt, we conducted meetings in the major regions—emphasizing producer attendance. From recommendations heard in those sessions, our committee drew up tentative cotton program proposals.

These were then communicated informally to the other six industry segments for their suggestions. After this, the Producer Steering Committee met again to review the suggestions and determine what its final recommendations to Council delegates would do.

Our recommendations were submitted to a policy development committee made up of 30 leaders from all seven segments and the four regions of the Cotton Belt, then to the Council's Board of Directors, and finally to the delegate body.

These delegates are named from each of the seven industry segments by ninety-one state, regional, and national cotton organizations. Each segment voting separately must give majority approval to a matter before it can become Council policy. So policy adopted by our organization has extremely broad-based support ranging from cotton producers to textile manufacturers.

Council delegates met in late January and unanimously adopted the following resolutions relating to the government cotton program:

Favor a long-range government cotton program which will:

(a) Protect net farm income by:

1. Continuing to support a market-oriented farm program with a CCC loan level that will promote orderly marketing, assist in crop financing, and also reflect market conditions; and, since the CCC loan rate for U.S. upland cotton is a function of the market, urging that the existing method for determining the cotton loan rate be continued;

2. Supporting the target price concept in the belief that it plays a very important role in maintaining a market-oriented farm program in that it provides a measure of income protection to farmers when market prices are unduly low; and the absence of target prices would result in added pressures to establish a loan level without regard to market implications, leading to serious marketing problems;

(b) Maintain an adequate supply of U.S. cotton to preserve markets and to meet the needs of customers both here and abroad;

(c) Maintain the competitive one-price system;

(d) Recognize that a farmer's benefits from a price support or payment program should not be limited; and support and work for those farm program provisions and administrative policies which will minimize to the greatest extent possible the inherent inequities of payment limitations.

Recognizing that the cotton section of the Act of 1981 (as amended) embodies the desired concept of a long-range government cotton program, reaffirm the principles of that section with the following changes:

(a) If an acreage reduction program is in effect, base deficiency payments on acreage diverted from production rather than planted acres at a rate that will yield a total payment equal to the amount that would have resulted from basing payments on planted acres; and consider the full permitted acreage as planted in calculating future base acreage, whether or not it is actually planted, and that such program be implemented in a manner that will not adversely affect the landlord/tenant relationship;

(b) Limit the total of program crop bases (cotton, wheat, feed grains, and rice) to the cropland available for planting on the farm except in cases where double-cropping is an established pattern;

(c) Support a long-term paid conservation reserve limited so as to avoid disruption of local economies;

(d) Exempt conservation reserve and diversion payments from the payment limit;

(e) Prohibit offsetting and cross-compliance;

(f) Urge a requirement that care of conserving-use acres be established only by state and county ASCS committees;

(g) Urge authorization of an export credit revolving fund and credit guarantees—unlimited to countries with good records of timely loan repayments—as well as fully adequate funding of foreign market development for agricultural products;

(h) Support updating of agricultural research authorization in Title 14 of the 1977 farm act (as amended in 1981) with funding in keeping with U.S. agriculture's need to lower costs and become more competitive in world markets;

(i) Support legislation to deny farm program benefits on newly broken-out fragile land planted to program crops.

Now, to get into the background present our key proposals and the reasoning behind them, here is Council Board Chairman John S. Barr, III, a cotton producer from Oak Ridge, Louisiana.

Mr. **Barr**. As Mr. Hollis has said, we have had a market-oriented program for nearly 20 years, and a key element for the last decade has been the target price/deficiency payment system. It protects the farmer when market prices are unduly low, and it averts pressure to raise the price-support loan level without regard to impact on the market. Remember that the current formula sets the loan at 85% of recent market prices, and far below the cash cost of production as computed by USDA. Remember too, that deficiency payments are made only when the farm price falls below the target, and that for the first seven years under this system, no deficiency payments were made to cotton growers. The target price should be set so as to safeguard against excessive drops in farm income but not high enough to induce excessive production.

The Council is unalterably opposed to payment or price-support loan limits. If the cotton program has any provision for acreage reduction—either paid or unpaid—such limits undercut its effectiveness.

We have obtained from USDA computer tapes that give, for every single cotton farm operation in the U.S. that participated in any crop program, the acreage base, planted acreage and production, among other things. Using these tapes, we were able to compute the exact amount of production on these farms that would have been affected in 1982 by payment limits of $50,000, $20,000 and $10,000 at deficiency payment rates of 10 and 15 cents per pound.

These farms accounted for 79% of the nation's cotton production. Most of the remaining producers were already out of the program because the current $50,000 limit made it uneconomical for them to participate.

The results are in Exhibit 1. The percentage of the *production* affected on the enumerated farms is large, even at the present $50,000 limit. If that limit is lowered to $20,000 or $10,000 as has been proposed, the percentage is overwhelming. For example, a 15 cent payment with a $10,000 limit affects 82% of production, and even a 10 cent payment with a $20,000 limit affects 53%. Obviously, if all producers had been included, these percentages would be even higher.

Besides a lower payment limit, it has also been proposed to strip producers affected by the limit of the adjustment to the set-aside acreage requirement they have had for 15 years. This crowning blow would assure that few if any farmers affected by payment limits would participate in the program.

Deficiency payments are not understood very well by the public. They are provided by law only when the market price fails to reach the target. And some costs are incurred in order to be eligible to receive them. First, a certain amount of land must be ideled, but must be kept from eroding or growing up in weeds. The average cost of caring for this idled land is about $25 per acre, and the taxes, overhead costs, rent and/or interest payments go right on. And second, income from the idled land is foregone. If the deficiency payments cannot be expected to cover those costs due to limits, the farmer has little incentive to participate in the acreage reduction program. Instead he plants all his acreage and the intent of the program is undercut.

The extra production means lower market prices for all producers—participators and non-participators alike. Beyond this, a low level of participation requires a larger percentage of acreage reduction to balance supply with demand, but the higher percentage of acreage reduction drives even more growers out of the program. The end result of low payment limits is that the acreage reduction program cannot work effectively.

In the same way, limiting price-support loans makes program participation even less attractive to medium and larger-sized growers and larger production and lower prices drive an even greater percentage of participators' crops into the loan.

There is an aspect of the current cotton program relating to deficiency payments that we feel should be modified to make acreage reduction programs more effective. Deficiency payments are now made on the basis of acreage actually planted to cotton. This provides incentive for the grower to plant the maximum amount permitted under an acreage reduction program when otherwise he might have planted less. We propose that when an acreage reduction program is in effect, any payment be based on *permitted* acreage rather than of planted acreage, and that diversion be a percentage of base acres rather than of planted acres. This will allow participating farmers to base their planting decisions on market forces instead of the program.

In another highly important farm policy area, the Council supports continuing the existing method for determining the cotton loan rate on the grounds that it is, and has been for a long time, "market-oriented". It has served our industry and the national interest well.

In 1965 (effective for the 1966 crop) the Congress changed from a cotton price-support loan based on a percentage of parity to one at not more than "90% of the estimated average world market price." The immediate effect was an 8 cent or 28% loan reduction from 1965 to 1966. With some minor modifications, this world price basis for the loan was continued through 1977.

In 1978 the current formula for establishing the loan was enacted at the request of the cotton industry. It sets the loan at the lower of (1) 85% of the average spot market price for the last five seasons (after dropping the high and low years) or (2) 90% of the average world price for the most recent 15 weeks. A 48 cent minimum was originally established and this was raised to 55 cents in the 1981 act. I should add at this point that cotton growers are somewhat divided in their opinions on the loan floor.

Prior to 1966 it was typical that the market price stayed in very close relationship to the loan—a cent or two above it.

Since 1966 the market price has rarely dipped even close to the loan (Exhibit 2). In 1965–66 (before the change to a world price base) it averaged 1.93 cents, or 6.7% above the loan. The closest it has been since that time was 2.43 cents in 1969–70. Percentage-wise, the closest was in 1982–83 at 10½% above.

Even when individual months are examined, the low month of the season was closer to the loan than in 1965 only twice percentage wise. This was in 1981 when the largest crop in 28 years came into a recession-depressed market, and in 1982 when the 1981 surplus was carried into the following season.

Over the 18 completed seasons since 1965, the market price averaged 15¼ cents above the loan. Since 1970 the average difference, at 19½ cents, is even higher.

These figures indicate that the loan level kept the market price higher than it would otherwise have been for only a very limited number of months in just a few of the eighteen years since the loan has been related to the world market price of cotton. And on these few occasions, the price here and abroad was so low that no claim could be made that it stimulated either foreign or domestic production.

It is widely accepted that as the largest exporter of cotton, the U.S. tends to be the world price-setter, although there will occasionally be exceptions when the world supply is unusually large or small. Therefore, if our price support loan had been too high, our foreign competitors would have been encouraged to grow more cotton and this would have cut into our exports as well as our share of the world export market.

But this did not happen. Exhibit 3 shows five-year averages of cotton exports beginning with the period immediately following Congress' adoption of the market-oriented cotton price-support loan in 1965. In each succeeding five-year period, U.S. cotton exports increased substantially, including the early 1980's. And U.S. cotton's share of world exports also increased in each period, rising from a fifth in the late 1960's to nearly a third in the early 1980's.

Foreign cotton acreage is shown in Exhibit 4, divided between China and all other countries, again using the five-year averages. Cotton acreage in countries other than China has had no significant trend. If anything, it has tilted slightly downward. Admittedly, production (Exhibit 5) is up due to rising yields, but not as much as consumption in those same countries. Increases in U.S. exports supplied the difference.

As Mr. Hollis mentioned earlier, our farm policy has little or no influence on what China does.

What about the U.S. producer? Has the loan caused him to produce excessively?

When the loan was the only price or income support mechanism for U.S. growers from 1974 to 1981, Exhibit 6 shows that acreage responded to *market* prices quite well, both up and down. And market prices were *not* closely related to the loan in those years. With planted acreage less than permitted under the acreage reduction programs of 1982, 1983 and 1984, it is obvious that the loan level had little impact on recent domestic acreage.

A final question concerning the appropriateness of the loan level is whether it created inordinate costs to government. Exhibit 7 shows these costs each fiscal year from 1965 through 1984. The large costs through 1970 represent the disposition at a loss of the 12.3 million bales accumulated under the high loan programs of 1965 and prior years. Once those stocks were eliminated, the government actually had a net profit in eight of the fourteen ensuing years and a substantial loss in only one year (1983). The net loss over the entire fourteen years was only $11.4 million.

We have shown that under the market-oriented cotton loan of the last 19 seasons (including estimates for the current season), U.S. cotton exports increased both in volume and share of world exports, foreign cotton acreage outside China was static, U.S. acreage responded well to market prices both up and down, and government costs were minimal. For these reasons we see no point in changing the loan program.

We do not want to leave the impression, however, that there are not trouble spots on the horizon for U.S. cotton exports. The most threatening, as Mr. Hollis said, is China which is on her way to becoming a major raw cotton exporter in addition to her already established position as a leading textile exporter. Already her huge stock build-up is seriously depressing world cotton prices, and next season we fear she will cut heavily into our export markets. The cotton loan program, however, cannot correct that situation.

It might be said by some that while the historical figures look good, we are just entering a period in which U.S. cotton is being seriously undercut in price by foreign growths, and that in order to compete, our loan rate needs to be lower in the years ahead. Indeed, barring a major price advance in the remaining months of this season, the 1986 loan rate would *be* lower if the current formula were to be applied.

One of the reasons for the production increases in some foreign exporting countries this season has been that since cotton is sold around the world in dollars, the rising value of the dollar promised the foreign producer many more rupees, pesos, etc., for his cotton at the same or even a lower dollar price than he had received in earlier years. They are now having to dispose of that cotton for whatever price it will bring in today's depressed markets.

An example of what has happened is found in Australia, where cotton acreage in 1984 was 88% higher than in 1981. The average U.S. market price of 66.4 cents in August 1981, just ahead of Australia's "down under" planting season, was equal to 58.2 Australian cents. By August 1984 the U.S. price had declined to 63 cents but it was equal to 75.6 Australian cents because the value of the U.S. dollar had advanced 37% against the Australian dollar. So while the American cotton grower was looking at a decline in the price of his cotton from 1981 to 1984, the Australian farmer saw prospects for a 30% increase. Little wonder then that he stepped up his acreage. This sort of thing has prevailed in a number of other cotton producing countries.

How is the U.S. to compete in this situation? Should we cut our cotton prices 37% from levels that are already well below average production cost? Nobody is proposing such a drastic reduction. The truth is that no government cotton program can be devised to make us fully competitive under these conditions. Further reduction of the loan to levels proposed by the Administration and others will likely bankrupt the U.S. cotton farmer without discouraging his foreign competition to any significant degree.

For this reason the National Cotton Council is appealing to the Administration, the Federal Reserve Board and the Congress to take actions that will restore a reasonable balance between the value of the dollar and other currencies. We have asked the President to appoint a bipartisan commission to recommend ways to reduce the federal deficit and restore sound fiscal policy in the belief that this is the only way the dollar problem can be remedied. When this happens, the current cotton loan program can continue to provide an orderly marketing mechanism without interfering with our ability to compete, as it has in the past.

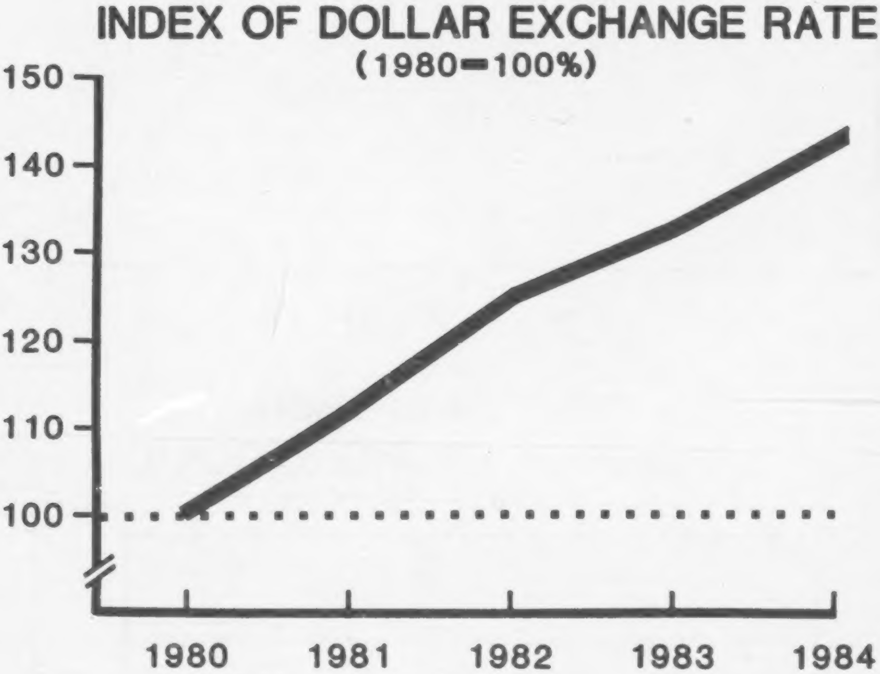
The cotton industry is committed to making its fiber available to all customers—domestic and overseas alike—at the same price. Export subsidies, incentives or bonuses give foreign processors an unfair advantage over domestic manufacturers. Already our domestic textile customers are being overwhelmed by textile imports drawn in by the strong U.S. dollar. If an export subsidy gave foreigners an additional edge, the domestic industry simply could not survive.

Already, 37% of domestic cotton use is being supplied by textile imports, and about 80% of the cotton in those imports is foreign-grown. The result is lower prices and smaller markets for U.S. growers and higher government cotton program costs. If a subsidy is to be offered in the export market, it should be made to domestic cotton processors as well.

The remainder of our farm program recommendations are self-explanatory.

We appreciate the opportunity to present our views.

CHART 1



INDEX OF DOLLAR EXCHANGE RATE
(1980=100%)

CHART 2

U.S. COTTON MARKET
(Mil. Bales)

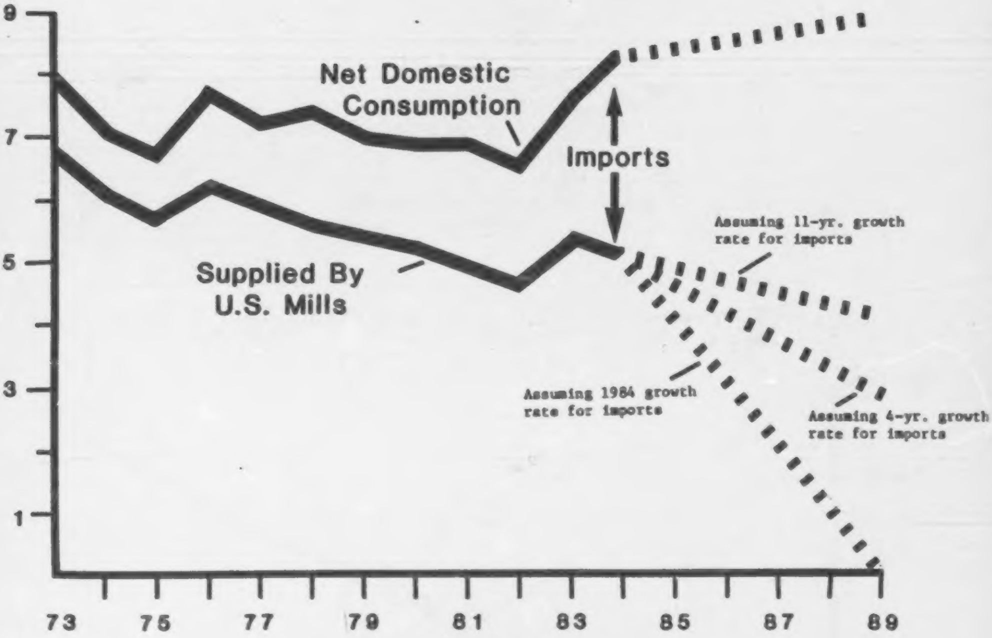


CHART 3

COTTON IN CHINA INDEX OF ENDING STOCKS
(1979-80 100%)

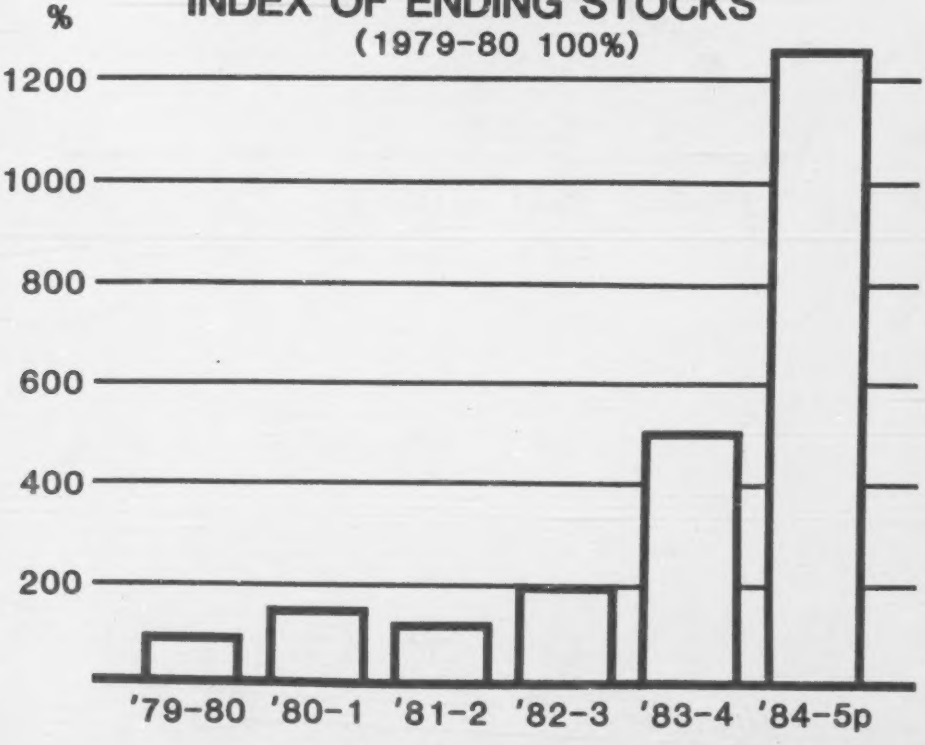


Exhibit 1
Impact of Payment Limits on 1982 Program Participants Growing Cotton

Assumed Deficiency Payment (cents/lb.)	Payment Limit	Production 000 Bales	%*
10	$10,000	7,017	74
10	20,000	5,022	53
10	50,000	1,940	21
15	10,000	7,787	82
15	20,000	6,277	66
15	50,000	3,237	34
All Enumerated Growers		9,468	100

* Percent of all enumerated growers' production.

SOURCE: U. S. Department of Agriculture computer tapes.

Exhibit 2
Loan Rates and Spot Market Prices
SLM 1 1/16" Cotton

		Spot Market Prices					
Season Beg. Aug. i	Loan Rate	Season Average	Season Average Above Loan		Monthly Low	Monthly Low Above Loan	
			cents	%		cents	%
1965	28.80	30.73	1.93	6.7	30.40	1.60	5.6
1966	20.85	23.76	2.91	14.0	22.97	2.12	10.2
1967	20.85	29.95	9.10	43.6	25.24	4.39	21.1
1968	21.75	25.54	3.79	17.4	24.03	2.28	10.5
1969	21.65	24.08	2.43	11.2	23.75	2.10	9.7
1970	21.55	25.33	3.78	17.5	24.10	2.55	11.8
1971	20.55	32.95	12.40	60.3	27.76	7.21	35.1
1972	20.75	35.59	14.84	71.5	25.67	4.92	23.7
1973	20.65	67.07	46.42	224.8	55.20	34.55	167.3
1974	27.06	41.69	14.63	54.1	36.10	9.04	33.4
1975	36.12	57.99	21.87	60.5	48.40	12.28	34.0
1976	38.92	70.88	31.96	82.1	58.18	19.26	49.5
1977	44.63	52.79	8.16	18.3	47.98	3.35	7.5
1978	48.00	61.58	13.58	28.3	58.05	10.05	20.9
1979	50.23	71.48	21.25	42.3	62.08	11.85	23.6
1980	48.00	82.99	34.99	72.9	75.08	27.08	56.4
1981	52.46	60.48	8.02	15.3	55.11	2.65	5.1
1982	57.08	63.08	6.00	10.5	58.20	1.12	2.0
1983	55.00	73.11	18.11	32.9	67.35	12.35	22.5

SOURCE: U.S. Department of Agriculture, Cotton Price Statistics (monthly)

Exhibit 3
Cotton Exports

(millions of 480 lb. bales)

Five-Year Averages	World	U.S. Number	U.S. % of World	All Other
1965-69	17.5	3.6	20.5	13.9
1970-74	18.9	4.5	23.9	14.4
1975-79	19.7	5.8	29.4	13.9
1980-84	19.9	6.2	31.2	13.7

SOURCE: U.S. Department of Agriculture, Foreign Agriculture Circular, Cotton (monthly)

Exhibit 4
Cotton Acreage Harvested

(millions)

Five-Year Averages	World	U. S.	China	All Other
1965-69	79.1	10.5	12.3	56.4
1970-74	81.6	12.0	12.3	57.3
1975-79	79.0	11.6	11.9	55.4
1980-84	80.3	10.9	14.1	55.3

SOURCE: U.S. Department of Agriculture, Foreign Agriculture Circular, Cotton (monthly)

Exhibit 5
Foreign Cotton Production and Consumption

(millions of 480 lb. bales)

Five-Year Averages	Total		China		All Other	
	Production	Consumption	Production	Consumption	Production	Consumption
1965-69	44.0	46.8	10.3	10.4	33.7	36.4
1970-74	49.0	51.7	10.4	11.2	38.5	40.6
1975-79	48.1	55.1	10.0	11.7	38.2	43.4
1980-84	59.0	62.0	18.3	16.0	40.7	46.0

SOURCE: U. S. Department of Agriculture, Foreign Agriculture Circular Cotton (monthly)

Exhibit 6

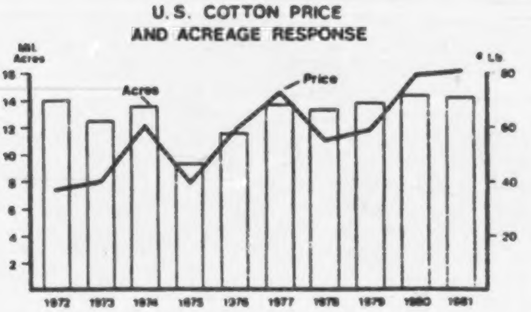


Exhibit 7
Net Cost of Cotton Price Support Loan Progam
(thousands of dollars)

Fiscal Years		Fiscal Years	
1965	115,228	1975	(2)
1966	98,729	1976	(13)
1967	427,058	1977	(50)
1968	373,195	1978	(14)
1969	29,432	1979	(80)
1970	22,386	1980	220
1971	(6,053)	1981	852
1972	(18,002)	1982	19
1973	380	1983	36,900
1974	32	1984	(2,862)

( ) denotes gain

SOURCE: U. S. Department of Agriculture, Report of Financial Condition and Operations of the Commodity Credit Corporation (annual)

STATEMENT OF NICKY HARGROVE, PRESIDENT, ARKANSAS FARM BUREAU FEDERATION AND MEMBER, BOARD OF DIRECTORS, AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation is the nation's largest general farm organization with a membership exceeding three million member families in 48 states and Puerto Rico. I serve as President of the Arkansas Farm Bureau Federation and as a member of the Board of Directors of the American Farm Bureau Federation. I appreciate the opportunity to appear before the Senate Agriculture Committee regarding Farm Bureau's position on farm programs for cotton and our proposals for legislative changes under the 1985 Farm Bill.

Farm Bureau policy is debated, amended and revised by voting delegates from each of our member states. At our 66th Annual Meeting in January, our delegates adopted policies regarding farm programs in general and policies specific to cotton programs. Our general farm program policy states:

We support a farm bill which will:

1. Maximize long-term opportunities for profit in agriculture;
2. Reduce existing incentives for overproduction at home and abroad;
3. Ensure price competitiveness for U.S. farm products in world markets;
4. Provide opportunities to reduce stocks through production adjustments and/or expanded demand;
5. Assure consumers of adequate supplies of efficiently produced products they wish to consume;
6. Cause a supply reduction program to be implemented when carryover exceeds workable levels;
7. Provide target prices as an income supplement for farmers to help them make the adjustment to a market-responsive agriculture;
8. Provide loan levels for all major export commodities to facilitate orderly marketing and price competitiveness. These levels should be related to a 3-5 year average domestic price. Loan levels should not provide incentives for production that exceeds demand in domestic and world markets. These levels should be adjusted annually by no more than 10 percent; and
9. Recognize that all commodities are interrelated and any change in supply, demand or price of one affects the others.

Cotton producers have operated under difficult marketing conditions in recent years. The U.S. cotton industry is facing increased foreign competition because of a strong U.S. dollar and internal policies of competing nations. The Peoples Republic of China (PRC), for example, has a domestic incentive price which has been largely responsible for production in that country expanding from 10 to 25 million bales from 1978 to 1984. The PRC will likely compete directly with the U.S. as a major supplier of cotton in export markets.

Changes in our farm policies can contribute to an improved outlook for cotton producers. Farm policy, however, must work in concert with sound trade, monetary and fiscal policies. Farm programs must adjust to the existing market and offer an opportunity for improved conditions while effecting a transition to a market responsive agricultural system.

As a result, Farm Bureau has developed a legislative proposal for the 1985 Farm Bill which is market responsive and fiscally responsible. We believe that by tying loan and target price levels to an average of market prices, the signals that producers receive when making production decisions will be founded in market reality, and not in political expediency.

I would like to offer more detail to the Committee on the provisions of our proposal that most directly affect cotton producers.

LOAN RATES

Farm Bureau supports continued use of nonrecourse loans for cotton with the loan levels set as they are under current law. The methodology employed in the Agriculture and Food Act of 1981 calls for loans set at the lower of:

(a) 85 percent of the previous five year average spot market price excluding the high and low values years, or

(b) 90 percent of the world market price as quoted in Northern Europe.

Under our proposal, the current 55 cent minimum loan level would be removed. To avoid wide fluctuations in loan rates, however, we propose that the rate be adjusted by no more than 10 percent in any year including the first year of the program.

We believe that a loan rate set in this manner with the minimum level removed, will operate efficiently. If domestic prices become disproportionately high compared to world prices, the loan level will adjust according to the demand in the world market. This type of loan rate also signals to our international competition that we will not provide them with long-term price protection.

TARGET PRICES

Farm Bureau supports continued use of deficiency payments as an income supplement to producers of the crops that currently have deficiency payments in their programs. We recommend freezing target prices for 1986 at the 1985 levels. In 1987 and thereafter target prices would be set at 110 percent of the five year average used to determine the loan rate. Adjustments to target price levels, however, would be limited to 5 percent in any year. We also support a $50,000 payment limitation that would apply to deficiency payments only.

This target price system will allow producers time to adjust to a more market responsive farm program while maintaining income levels for program participants. Necessary adjustments could occur gradually while attempts to expand exports and address the issues of international market access and subsidy practices can be confronted.

EXPORT MARKET EXPANSION

We believe that the area in which substantial improvement can be realized in agricultural profitability lies in the area of exports. We therefore have placed great emphasis on the need for a strong trade title in the 1985 Farm Bill.

Two traditional ways of enhancing exports have been through the judicious use of CCC export credits and the P.L. 480 or Food for Peace Program. These programs should be continued and improved. This program provides poor nations the potential for economic development followed by better cash market opportunities for U.S. producers. I believe that a much stronger P.L. 480 Program is currently justified.

Regarding CCC export credits, it is regrettable that the CCC Credit Revolving Fund, which was part of the 1981 Farm Bill, was never funded and activated. There are still valid reasons for incorporating the Revolving Fund in the 1985 Farm Bill with funding made available to make it an effective export tool.

An intermediate CCC Export Credit Program is needed to take care of export credit needs for terms of 3-7 years as provided for in the Agricultural Trade Act of 1978. This legislation should be more fully utilized.

The Blended Credit Program, which unfortunately has been saddled with the requirements of the cargo preference law, needs to be made a part of new farm legislation with an exemption from cargo preference. As a matter of fact, all agricultural exports should be exempted from cargo preference requirements whether commercial or government assisted. There are other ways of financing a strong merchant marine without harming agricultural exports. We should not harm farm exports in our efforts to have a stronger American flag fleet. Farm Bureau will strongly support legislation to exempt agricultural commodities and products from the cargo preference law.

There may be some barter opportunities with some countries that need agricultural products including cotton and have oil or other materials or commodities that we need. We should not ignore any such opportunities, but rather should seek ways to gain exports where such possibilities exist.

Regarding trade negotiations, we must give our trade negotiators the tools they need and our strong support to gain better market access and to resolve outstanding unfair trade practices such as export subsidies, which have eroded U.S. overseas' markets. In this respect, we would support what might be called a "bonus" export program.

Under such a program, "bonus" tonnage of farm commodities and products would be made available from CCC owned commodities to lower U.S. export prices to offset the advantage of competing countries which subsidize their exports.

ACREAGE REDUCTION PROGRAMS

We support acreage reduction programs that are triggered when carryover supplies exceed workable levels. For cotton, we recommend that the Secretary be required to call for an acreage reduction program when carryover is projected to exceed 3.5 million bales. The ARP programs should be large enough to assure a reduction in carryover supplies. Increased efforts to expand foreign markets under the trade title of our proposal and greater market competitiveness assured by flexible price and income support programs will result in acreage reduction programs used only to correct temporary imbalances, not as annual programs.

CONSERVATION

We are concerned that farm programs have provided incentives to plow up fragile lands. Our policy states, "We oppose economic incentives to artificially stimulate producers to bring fragile lands under cultivation. Any producer that brings such land under cultivation should be ineligible for any federal incentive payments for any crop in his entire farming operation."

We also support implementation of a conservation reserve program which offers producers contracts of seven to fifteen years under which erosion-prone cropland would be converted to less intensive uses such as pasture, permanent grass, legumes or non-crop bearing trees.

The policy that could best offer prosperity to U.S. agriculture would be a commitment to fiscal responsibility and reducing overall federal spending in order to get interest rates down, currency exchange rates in line and exports back into the world market. We therefore continue to support a freeze on government spending at 1985 levels.

We believe that our proposal will benefit the cotton industry as it provides the opportunity for profit to all of agriculture. The features we have outlined allow us to move toward market orientation, provide continued assistance in the form of target prices, and expand export markets. Only in this way can we return agriculture to a healthy and balanced condition.

Farm Bureau will work closely with the Senate Agriculture Committee in developing a sound and fiscally responsible farm bill. I would be happy to respond to any questions.

STATEMENT OF PETER F. DIFFLY, PRESIDENT, AMERICAN COTTON SHIPPERS ASSOCIATION

Mr. Chairman, I am Peter F. Diffly of Hohenberg Bros. Co. in Selma, Alabama. I am President of the American Cotton Shippers Association. Appearing with me today are Mr. Dewell Gandy, Economist for W.B. Dunavant & Co. of Memphis, Tennessee, and Mr. Neal P. Gillen, of Washington our Vice President & General Counsel.

Our testimony will review the current state of the cotton industry and suggest legislative changes which will avoid a recurrence of the build up in price depressing stocks encouraged by the provisions in the current law. Our suggested changes will minimize the role of government in a way which will benefit U.S. cotton producers and reduce the cost of the cotton program.

THE COTTON SITUATION

Within the framework of your legislative deliberations it is important to understand the supply demand outlook on a world basis as U.S. cotton competes in world markets with 74 cotton producing nations. Presently world stocks are at all time levels, equaling a six month world supply, almost double the normal level of a three to four month supply. The People's Republic of China holds 45% of the world supplies and is serious threat to U.S. cotton export prospects. Compounding this is the fact that U.S. stocks increased from 2.8 million bales last year to a current level of 4.2 million bales, and due to reductions in export shipments in the current marketing year, stocks will be at a level of 5.5 million bales next year. In this bleak atmosphere the inflexibility of the 1981 Act resulted in the loan level for the 85–86 marketing year being increased by 2.3 cents per pound giving additional production and marketing incentives to our foreign competitors.

Here at home, U.S. textile mills, traditionally our largest and most secure customer, are experiencing the worst difficulty I have seen in my 37 years in the cotton business. The high level of textile imports is directly related to the closing of plants throughout the Southeast, and the lowering of domestic annual consumption to the record low level of 5.2 million bales. This is reflected in the lowest level of Southeast textile employment on record. The U.S. Department of Labor reports four consecutive months of declining employment in the Southeast with 29,000 jobs lost in seven states as follows:

State:	*Jobs lost*
North Carolina	16,800
South Carolina	4,900
Alabama	4,000
Georgia	1,500
Tennessee	1,400

	Jobs lost
Mississippi	200
Florida	200

The effect on the economy of the small towns in each of these states has been devastating. Should imports continue at current levels the domestic market will be lost and the cotton industry will likely disappear as we cannot produce exclusively for the export market.

The U.S. and World Cotton Outlook is as follows:

	1982–83	1983–84	1984–85	1985–86
United States:				
Beginning carryover	6.6	7.9	2.8	4.2
Production	11.96	7.8	13.0	12.0
Domestic consumption	5.5	5.9	5.2	5.2
Exports	5.2	7.0	6.4	5.5
Total offtake	10.7	12.9	11.6	10.7
Ending stocks	7.9	2.8	4.2	5.5
World:				
Beginning carryover	25.4	24.9	26	40.1
Production	67.5	67.6	84.5	76.0
Supply	92.9	92.5	110.5	116.9
Consumption	68.0	68.8	69.8	70.8
Carryover as percent of previous year's consumption	39.0	37.0	38.0	57.0

SUGGESTED AMENDMENTS TO 1981 ACT

The current program continued beyond 1985 will result in minimum carryover levels of almost 6 million bales in 1986, a level twice that of this year's beginning carryover of 2.8 million bales. The production incentives inherent in a 55 cent minimum loan and an 81 cent target price are predesigned to continue program costs at high levels, build stocks, foster foreign production, and reduce our share of the export market. We are fast approaching the conditions of the 1960's and far too many in agriculture do not wish to return to the programs of that era.

To resolve the problems of oversupply, it is essential that cotton be priced at levels which will assure its sale and consumption without adversely effecting the income level of U.S. Cotton producers, and at minimum costs to the government.

We recommend the following changes in the 1981 Act.

First, the minimum loan concept is a detriment to the efficient production and marketing of cotton and should not be continued.

Loan levels should be designed to primarily benefit U.S. producers, and not benefit foreign producers, particularly those in centrally controlled governments who have more flexibility to rapidly increase plantings and take maximum and immediate advantage of our mistakes. Be mindful, that U.S. cotton competes in a world market with 74 cotton producing nations, with 14 countries producing approximately 90% of the world supply of cotton. As I mentioned earlier, the People's Republic of China, with almost one half of the world's excess cotton stocks, is posing a substantial threat to traditional U.S. export markets in the Far East, which over the last 10 years have consumed 80% of the total U.S. cotton exports.

Second, and equally important for competitive reasons, the formula utilized to determine the U.S. price support loan should be established at the lower of 75% of the average U.S. spot market price or 75% of the world price. Such loans should remain on a nonrecourse basis for the original 10 month loan period without limitations on the total dollar amount.

Third, the current provisions providing producers with the possible option of an additional 8 month extension should be modified. To provide some incentive to producers to consider marketing their cotton the additional 8 month extension should be on a recourse basis. Such a change will make it more likely that cotton will be redeemed for sale before carrying charges reach a point where it is no longer profitable for producers to sell in the market and recapture the cost of carrying charges. An analysis of prices over the last [illegible] years shows that only on two occasions has the price risen to a level which would have allowed farmers to recoup the carrying charges of insurance, interest, & warehouse storage.

This policy change will reduce the likelihood of CCC acquiring stocks thereby reducing government expenditures for this phase of the program which have been significant in recent years. Producers need only to remember what happened in the 1983 PIK program to realize how costly the current policy is to them on an individual basis. Had the 8 month loan extension been on a recourse basis or at the discretion of the Secretary the CCC would have had access to additional loan stocks for distribution to PIK participants and the personal costs and unfairness of the harvest for PIK requirement would have been alleviated.

Fourth, the target price concept must be reconsidered. By establishing the target price at levels unrelated to market price or production costs, efficient producers are penalized, unnecessary production of undesirable growths is encouraged, and the concept of payment limitations precludes effective program compliance at times when carryover stocks reach excess levels.

We favor retaining the target price, but we recommend that it be related to the price support loan, which will relate it to the world price. A level of 120% of the loan was approved by the House in 1981, a level that we support.

Fifth, we recommend that CCC resale policy be reformed so that CCC stocks are sold at actual market value rather than at the current restrictive resale price floor of 115% of the loan rate. Should CCC accumulate stocks through loan forfeitures, the stocks tend to depress prices precluding the government from selling the stocks because of the artificially inflated price. The Government ends up carrying the stocks and paying storage, interest, insurance and other service charges which in time exceed the value of the commodity. Currently CCC owns 100,000 bales of cotton it cannot sell because it is artificially priced above the market price of new crop cotton. A year from now the CCC will likely have several million bales in this catagory.

Sixth, if the base acreage concept is retained changes will be required to establish and maintain accurate bases for those actually producing cotton, this will result in a base acreage more reflective of the actual land planted to cotton each year. Such a change will avoid the current anonomly of an inflated base acreage which requires USDA to implement large and costly acreage cutbacks each year. Remember when we reduce acreage our competitors always increase theirs.

It is our opinion that these basic changes in the 1981 Act will substantially improve the prospects for U.S. cotton producers in their competitive struggle with synthetic fibers and foreign produced cotton.

I thank you for providing me with the opportunity to testify here today and I will endeavor to respond to any questions.

STATEMENT OF DANIEL K. FRIERSON ON BEHALF OF DIXIE YARNS, INC. AND THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE

Mr. Chairman, we appreciate this opportunity to testify with respect to the cotton program. I am Daniel K. Frierson, President of Dixie Yarns, Inc.; Chattanooga, Tennessee, and member of the Board of Directors of the American Textile Manufacturers Institute, (ATMI), which is the central trade association of the American textile industry representing about 80% of the domestic industry for the spinning, weaving, knitting, and finishing of cotton, wool, silk, and man-made fibers and 90% of the cotton system spindles. I also serve as Chairman of the ATMI Cotton Committee. ATMI provides governmental, economic, international trade, occupational safety and health, statistical, and public relations and other services to the industry.

The American textile industry represents a major industrial segment of the nation's economy, approximately 753,000 employees, including 47 percent women and 25 percent minorities. It is the major industry through which American grown cotton moves to market. The textile industry, like many other American industries today, is facing ever increasing economic challenges at home and from overseas. The industry's very low average profit after taxes of 2.7 percent from 1980 to 1984 as compared to 4.4 percent for all manufacturing, places it in a vulnerable position concerning increased operating costs. The importation of textiles and apparel at a rate far exceeding the domestic market growth rate continues to be a critical problem. Despite this, it continues to make major investments in new manufacturing equipment and today is the most modern textile industry on earth.

As cotton is a major raw material for our industry, our interest in Federal cotton policy is obvious. Additionally, ATMI members serve on the Executive Committee and Board of Directors of the National Cotton Council and participate in the development of Council policy and in that connection, fully support Council recommendations with respect to this legislation.

In the spring of 1957, the Institute adopted a statement of fundamental principles which were regarded as being essential to any successful long range program for cotton. Over the years, they have been reaffirmed with only slight modification.

Briefly stated, they are—

1. The preservation, encouragement and expansion of efficient and profitable cotton production;
2. An adequate supply and variety of cotton for domestic mills;
3. A permanent one-price system under which American cotton is made available to American mills through normal channels at the same price it is made available for export;
4. Favor a cotton export program that insures sufficient markets for American cotton growers to allow them to produce volumes of qualities necessary to supply domestic needs;
5. Continue the special trigger mechanism concerning the special import quota for upland cotton in time of domestic shortages.

Generally, the Food and Agriculture Act of 1981 has met these objectives. The basic concepts of this Act have the general support of all segments of the raw cotton industry, and we feel, Mr. Chairman, that this is significant.

I would hasten to add at this point that our position on all of these points is in full accord with the policy provisions of the National Cotton Council.

Mr. Chairman, the ATMI policy positions stress that the main concern of the textile industry is access to an adequate supply of cotton at the same price as foreign manufacturers, at a price that is competitive with other fibers and at a price that allows growers needed profit incentives.

Mr. Chairman, these recommendations, in combination with those of the National Cotton Council, if approved by your Committee and the Congress will strengthen the present law, which as we have indicated is basically sound. They will put the world on notice that cotton intends to remain a major competitor in the world's fiber market.

The American Textile Manufacturers Institute endorses them and recommends their passage to you.

[The following material was supplied by Bobby Webster, see p. 347 for his oral presentation:]

LEGISLATIVE POLICIES

Adopted by the Board of Directors & General Membership, Jan. 18, 1985—Mobile, AL

While Southern/Southeastern endorses the concept of a free market oriented long range agricultural policy for the United States, we recognize that such a policy is unrealistic in today's economic environment due primarily to the protectionism practiced by the socialist, and some free world countries. We, therefore, urge the United States to adopt domestic farm programs and foreign trade policies which would:

1. Increase both domestic and foreign consumption of U. S. Cotton.
2. Establish stability between supply and demand of U.S. Cotton while maintaining an adequate production level for growth to meet increased demands in both foreign and domestic markets.
3. Provide the individual U.S. Cotton farmers with a reasonable return on his investment.
4. Lower production costs through increased agricultural research.

In order to obtain the above goals, we urge USDA and other government agencies and Congress to adopt and implement the following provisions as part of the agricultural policies of the United States.

LONG TERM LAND RETIREMENT

Support reasonable conservation legislation that encourages efficient long range production practices. Such legislation should not be used as a requirement for participation in government programs.

ACREAGE REDUCTION—(SET-ASIDE AND DIVERSION)

Authority should be used if needed for production control with a paid acreage reduction program.

COMMODITY EXCHANGE PROGRAM

Authority should be continued for standby use if needed for production control.

TAX REFORM ACT OF 1984

Oppose vehicle record keeping requirements imposed on Agriculture and Agriculture related businesses by the Tax Reform Act of 1984 (Section 274 and 280).

CCC LOAN

The CCC Loan Level should exist only to assist producers in crop financing. The level of the loan should in no event encourage an excess of cotton production. Premiums, discounts and bases for the qualities of upland cotton used by USDA in establishing CCC loan differentials should accurately reflect market value.

TARGET PRICES

Support the continuation of the target price concept which more accurately reflects inflation in the cost of production and use cost per acre rather than cost per pound to determine increases in cost of production. There should be at least a 10¢ difference between the CCC Loan and the Target Price.

DISASTER PROGRAM—FEDERAL CROP INSURANCE

Support a federally funded crop disaster and insurance program based on production costs per acre by regions and implement a crop insurance program which insures the proven cost of production by regions at affordable rates which accurately reflects the true risk involved.

MONETARY SUBSIDIES, BLENDED CREDIT, P.L. 480, AND EXPORT COMMODITY EXCHANGE

Support expanding export markets through monetary subsidiaries, blended credit, P.L. 480, export commodity exchange, and other entities which provide equitable treatment of domestic mills.

IMPORT QUOTAS AND LONG TERM BI-LATERAL TRADE AGREEMENTS

Free world trade is in the best interest of American Agriculture, however, during periods when supplies are limited, producers' interests may be best served by a temporary limited relaxation of import quotas. This would serve equally to avoid imposition of export quotas, to avoid loss of domestic market to synthetics and to assure domestic mills an opportunity to compete in world markets for available supplies at competitive prices until U. S. producers could fully supply domestic needs.

BASE ACREAGE

Oppose rigid restrictions on growth of base acreage and oppose any reduction in Base Acreage.

PAYMENT LIMITATIONS

Oppose any limit on payments to producers.

CCC RE-SALE PRICE

CCC cotton should not be resold for less than the total cost to CCC plus interest and carrying charges.

BARTERING PROGRAM

Support a bartering program which will expand markets.

INTEREST RATES

Interest rates on cotton loans should not exceed the lowest rate at which government borrows money.

RESERVE PROGRAM

Oppose any type of cotton reserve program.

EXPORT EMBARGOES

Amend Section 1002(a) of the Act to provide that whenever a credit or commodity embargo of any commodity is imposed for any reason other than a national emergency declared by both Houses of Congress, the U. S. Government shall on the day the restriction is initiated, establish a compensatory program to the producers which would reflect 90 per cent of parity without producer limitations while maintaining a one price system.

FARM DEBT

The Secretary of Agriculture should take immediate action to implement a moratorium on farm S.B.A. and F.H.A. loans and interest while restructuring current farm debt on an individual basis.

FHA LOAN LIMIT

The $500,000 limit on the amount FHA can loan to any one farmer is not realistic in today's farming operations and such limit should be removed and the amount available to any one farmer should be based on his individual needs and farming operations. Such loans should be made available to all producers regardless of the date of their participation.

FAILED ACRES—LOW YIELD PAYMENTS

A zero yield should be assigned to those acres of cotton affected by a disaster which would result in an appraised yield of 50% or less.

CHANGES IN PLANTING PATTERNS

Regulations should be changed in order to authorize an adjustment in payment yields up or down when changes are made in planting patterns to determine program or insurance benefits. The authority of County Committees to administer ASCS regulations should be increased.

ENDING PLANTING DATE FOR COTTON

The cut off date for cotton planting should remain as they are in the present law.

PLANT FOR COMMODITY EXCHANGE PROGRAM

Should USDA require a plant for a commodity exchange program, such program should be based on the same regional procedures as established by past commodity exchange programs for quality. All requirements for a plant for commodity exchange program should be satisfied within a region prior to using any of the excess CCC loan cotton to fulfill the needs of other regions.

COTTON CLASSING

Support the continuation of the Smith-Doxey classing through HVI at the present locations for the least possible cost to producers.

COTTON RESEARCH NEEDS

Accelerated production and gin research programs are essential if the spiraling cost of cotton production is to be stopped. Programs of production and gin research must be expanded and fully funded to solve problems with established priorities.

ELIGIBILITY REQUIREMENTS FOR SET-ASIDE AND APPROVED COVER PRACTICES

The decision as to what is to be done with the set-aside should be set at the State level. The State ASCS Committees should have the authority and opportunity to make the decision. State and County ASCS Committees should have authority to make needed adjustments in set-aside regulations to prevent inequities and hardships from accurring. A combination of choices of what the farmer can do should include a fallow program. Also included should be the opportunity to utilize this period when he has the land out of production to do some land improvements and conservation practices.

SET-ASIDE LAND

Any land considered cropland should be eligible for set-aside requirements.

EXPORT CREDITS

CCC Export Credits (GSM-5) should be appropriated to a revolving fund and not be charged to USDA's budget.

SIGN-UP DATE

Urge USDA to extend the 1985 sign-up date for cotton to April 15th. Such date should be extended when a change in the landlord/tenant relationship occurs and such date should be extended when a crop is destroyed by an act of God, with the right of a producer to plant an alternative crop within that crop's program.

BOLL WEEVIL ERADICATION PROGRAM

We strongly support the continuation of the Boll Weevil Eradication Program and the continuation of USDA funding.

STATEMENT OF TOMMY FONDREN, CHAIRMAN OF THE BOARD, TEXAS ASSOCIATION OF COTTON PRODUCER ORGANIZATIONS

Mr. Chairman, I am appearing before you today as the Board Chairman of the Texas Association of Cotton Producer Organizations. TACPO is an umbrella organization of the eight cotton producer organizations in our state representing all cotton producing regions of Texas.

I should like to begin by stating that we are in basic agreement with and support of the policies as presented by the National Cotton Council.

We strongly support continuance of all provisions in the present law pertaining to the loan program with particular emphasis on the method of determination, the floor and the term of the loan. In addition in order to accomplish its objectives the loan must be non-recourse with no limitations and he current CCC resale provisions should be maintained.

We are also in agreement that the target price concept should be maintained and under current economic conditions at least at the present level of 81¢ with many favoring 86¢ as originally set by Congress. Some means of tying the target price level to producer input cost as originally envisioned in the current program would seem to be in order. We would also take this opportunity to state our strong opposition to payment limitations which are inherently unfair and work to the detriment of the overall program.

On the question of offsetting and cross-compliance, we would express our opposition on the basis that such provisions for cotton would further force more producers out of the program so long as a payment limitation is in effect.

We are in agreement that bases should be limited to the cropland available for planting on the farm so long as the affected producer has the option of specifying which crop base would be reduced. In addition the recommendation to base deficiency payments on acreage diverted from production rather than planted acres when an acreage reduction program is in effect would increase the program's effectiveness.

Mr. Chairman, another matter of extreme importance to Texas producers, cotton producers throughout the Belt and to the United States is our ability to export. While the strong dollar holds many pluses for our nation it should be obvious by now that too strong a dollar severely limits our ability to export and at the same time reduces our domestic markets by encouraging textile imports. As cotton producers we are in effect taking a double whammy. We urge you to use every means available to maintain our exports of raw cotton and at the very least inhibit or slow down the imports of textile goods.

In conclusion, Mr. Chairman, cotton now has in operation just what the Administration is saying all commodities need—a "market oriented" program with a price support loan set by domestic and/or world markets and a target price that is more than reasonable in view of current production costs.

And the Texas Association of Cotton Producer Organizations is simply joining other producers and other segments of our industry in asking that this committee work for a continuation of this program with the adjustments we have suggested to make it a more effective vehicle for the preservation of our industry.

STATEMENT OF PLAINS COTTON GROWERS, INC.

PCG is one of eight producer groups that make up the Texas Association of Cotton Producer Organizations (TACPO) on behalf of which Chairman Tommy D. Fondren presented testimony for all cotton producing regions of Texas. We represent a 25-county area surrounding Lubbock, producing on average about half the Texas crop and from 12 to 25 percent of the national crop.

PCG participated in the development of TACPO's legislative policy and fully endorses Mr. Fondren's statement to the committee.

In addition to that statement we would urge that the chairman and members of the committee give special attention to the following suggestions that have evolved from PCG board and executive committee discussions.

1. The maintenance and expansion of cotton exports is of paramount importance to our industry and is especially critical to our Texas High Plains which depends on exports for an estimated two-thirds of its market. Therefore in addition to an adequately funded export revolving fund, effective credit guarantees and aggressive foreign market development programs, the government should use whatever methods are available to provide an adjustment for export-limiting differences in currency values, giving strong consideration to the use of excess agricultural commodities to achieve the desired adjustment.

2. An "adequate supply of U.S. cotton to preserve markets . . ." as called for in National Cotton Council, TACPO and PCG policy, in the interest of avoiding undue price depression, should not be construed as a need for annual carryovers in excess of three million bales.

3. The general variability of weather conditions and the frequency of weather-related disasters, often on consecutive years, makes protection of cotton program yields a vital issue for growers on the High Plains. We therefore urge that the reduction of program yields by more than 10 percent in any one year be prohibited in new legislation.

4. There long has been justifiable dissatisfaction with Commodity Credit Corporation accounting methods which charge the total of all commodity loans to "farm program costs" without regard for loan repayments and/or sales from Commodity Credit Corporation stocks. We therefore recommend that CCC accounting methods be changed to prevent such distortion of fact in future programs.

Attached for your reference are copies of (1) TACPO's written statement and (2) NCC's farm program legislative policy as adopted by the NCC delegate body.

We urge your consideration of our views and invite any questions you may have as we all work toward passage of acceptable farm legislation in 1985.

STATEMENT OF COLIN L. SCOTT, CHAIRMAN, NATIONAL LEGISLATIVE COMMITTEE, ARIZONA COTTON GROWERS ASSOCIATION

Mr. Chairman and members of the committee, I am Colin L. Scott, from Casa Grande, Arizona, serving our association as chairman of the board and as chairman of the national legislative committee, and representing 1,300 producer members of the Arizona Cotton Growers Association, the only state-wide producer organization in the cotton belt.

In our previous appearances in both 1977 and in 1981, we consistently expressed the view that the market-oriented farm policies adopted with the 1973 act were achieving positive economic results.

When you combine bale production, yield, price and overall income, the results in Arizona through 1981 dramatically demonstrated the positive impact of Government policies which stimulate rather than restrict, which emphasize market orientation rather than government controls, and which support rather than dictate.

Clearly, we felt in 1981 that our market-oriented policies were working and with some "fine tuning" would continue to work in a manner that would maximize our economics potential in the free market while minimizing Government involvement and cost exposure.

Yet, in the three years of the agriculture and food act of 1981, the results have been mixed.

Prices have been erratic: from a high of 68 cents to a low of 62 cents.

Our acreage went from a high of 600,000 in 1981 to a low of 291,000, the PIK year, in 1983. The average acreage has been approximately 412,000 for the past three crop years.

Yield has remained stable: nearly 1,200 pounds per acre or 50% greater than the national average.

Our production has been approximately a million bales annually after achieving a record 1.5 million in 1981.

In terms of value, we produced a crop valued at 418 million in 1981, but in the last three years the average has been only 289 million, a decrease of 31%.

And, throughout the 1981–1984 period our cotton prices have failed to exceed the cost of production.

It is clear to us that what we had hoped to achieve through market-orientation: economic growth and price stability, has proven illustrative.

In addition, for the first time Government deficiency payments were made in 1981 and for the last three crop years, following seven years of no payments.

And, instead of freeing our productive capacity, we have had acreage reduction programs in place for each year of this 4-year farm program.

Yet, notwithstanding these economic troubles and the problems for Government, the Arizona Cotton Growers Association, as a matter of principle, continues to strongly favor market orientation. Such an approach is far more preferable than the failed policies of the past in which government directly intervened in the farm market place.

It is obvious, however, that we must develop those policies that enable market orientation to continue to evolve in a manner that serves the best interests of the farmer and his long range economic success.

In this connection, the Arizona Cotton Growers Association strongly supports the principles of the cotton section of the 1981 act because we believe that it embodies most of the desired elements of a long-range government program that supports cotton through a market-oriented approach. If "fine tuned", we believe that such principles should be extended in the 1985 farm bill.

While we support the farm program resolutions of the National Cotton Council and the principles of the cotton section of the 1981 act, the Arizona Cotton Growers Association would like to emphasize the following as essential to the development of the 1985 bill and the continuation of a strong and vigorous market-oriented cotton program.

First, if the committee is convinced of the necessity for harsh medicine then we would suggest a gradual or phased program, possibly starting with a simple extension of the current act until the 1987 crop year. The current economic environment for American agriculture deserves to be taken into consideration in re-directing Government farm policy.

Second, we continue to support a cotton loan program as currently established under the 1981 act. And, we favor retaining a floor which is economically appropriate. We are not convinced that the loan floor is detrimental to our cotton marketing program. In fact, the loan floor serves as a stable base for crop financing, which in the current economic climate is critical to securing loan financing.

Third, we continue to believe that the target price-deficiency payment system serves as an appropriate safety net. However, we believe that a fixed target price rising each year is inappropriate and counter productive. In principle, we believe that the target price should be determined in relationship to the loan, perhaps at 120% as was proposed in 1981.

Clearly, an overly generous target price exposes the Government to substantial costs. We need a better mechanism to balance protection with the realities of production and supply and demand, while at the same time reducing heavy financial exposure to the Government.

Fourth, we support the proposal of the National Cotton Council to base deficiency payments on acreage diverted rather than planted acres. We believe that this will result in Government policies that do not have the unintended effect of stimulating greater cotton planted acreage than necessary.

Fifth, we would like to suggest that the committee consider the question of whether it is advisable to maintain, in law, a process that creates an artificially high cotton base. For example, the current farm bill has created a 15.6 million acre cotton base on the 1985 crop. Obviously, when an acreage reduction program is required, a high base results in large acreage reductions. Simply put, an acreage reduction program bears little resemblance to what is necessary to achieve production supply from the actual base. We urge the committee to consider this issue by developing a process that will reflect a more accurate cotton base and eliminate the need for any unnecessary acreage reduction programs or, at least to require only what is absolutely necessary. The expense and manpower required to maintain unproductive land and the restrictions on productive capacity serves no one's interest.

In this regard, we would recommend review of the National Cotton Council's 1985 resolutions on this point.

Sixth, the association recommends that cross-compliance and off-setting compliance provisions, whether for farm or crop be prohibited. These penalties are neither appropriate nor supportive of the basic principles of permitting farmers to make decisions in their own best interests and which are based on market demand.

Seventh, we want to be on record as being opposed to payment limitations. If acreage reduction programs are to work, particularly in the west where acreages are substantial, then payment limitations must either be eliminated or modified. Absent elimination of payment limitations, the association strongly endorses the current limitation of $50,000 as appropriate.

Eighth, we support reauthorization of title 14 for agricultural research as well as appropriate funding levels. Although the Arizona Cotton Growers Association has supported its own research programs, it recognizes the needs for the Federal partnership. The need for boll weevil research and suppression funds in the southwest, for example, makes the federal presence essential. Federal research programs are critical and we urge the committee to support such programs.

Finally, Mr. Chairman, this association is of the opinion of that unless this committee, through this bill, or through some other measure, comes to grips with the impact of an over-valued dollar, all the "fine tuning" in the world will make very little difference to a market-oriented cotton program.

With nearly 90% of our production beign sold in the far east, the impact of the high dollar becomes very real to our competitive edge.

If we are to maintain our markets, if not expand them, then this issue must be addressed.

In 1979 the United States held a 40% share of the world cotton export market, the highest since 1960!

Since 1979, however, our share has averaged 31% through 1984, declining to 26% in 1982 alone. Instead of growing, it declined. Export credit programs are, of course, critically important to us, but such programs alone are not adequate enough. We believe that the principles outlined by the 1984 report of the President's Export Council bears on this issue, and should be considered by this committee. The report recommended the following:

1. New farm legislation should have a greater market orientation than legislation that prevails today.
2. A financial safety "net" must be provided for U.S. agricultural producers, but this net should be flexible, and should always be maintained at market clearing levels.
3. Legislative and executive action should be directed toward preserving the U.S. share of global agricultural export markets, and gradually expanding the market share to reflect the international competitiveness of American agriculture.
4. Adequate credit and reasonable credit terms must be provided to foreign buyers, particularly those from lesser-developed nations.
5. Applicable branches of Government must be encouraged to follow fiscal and monetary policies—with particular emphasis on reducing the size of the Federal deficit—that will lower real U.S. interest rates, thereby easing the present deflationary trend in American agriculture and helping to repair the severe damage to farm export markets that has resulted from a high-valued dollar.
6. The administration should respond aggressively to the unfair trading practices of our competitors and our import customers, pursuing changes in such practices (1) bilaterally, and (2) multilaterally, through a new round of GATT negotiations, if necessary.

We recognize that this is a complex and difficult issue for agriculture, but we believe that it can be addressed in the spirit of competition and not protectionism.

In conclusion, Mr. Chairman, we know that the 1985 farm bill is being created in an environment of great pressures. We hope, however, that you will proceed in a manner that will serve our productive capacities and competitive spirit. American needs a strong food and fiber industry and we are committed to working with you to achieve that objective.

1985 FARM PROGRAM LEGISLATION: SUMMARY OF TESTIMONY OF ARIZONA COTTON GROWERS ASSOCIATION

In 1981, the association testified to the positive results of the market-oriented cotton program enacted in 1973.

In the three years of the Food and Agriculture Act of 1981, the results are mixed.

Yet, the association still believes in "market orientation" as being preferable to mandatory government programs.

The association supports the principles of the 1981 act and the 1985 resolutions of the National Cotton Council.

The association proposes the following:

1. A phased program or a simple extension, if necessary.
2. Support the 1981 loan formula with a floor that is economically appropriate.
3. Support the target price-deficiency payment system as a "safety net" using 120% of the loan on which to base the deficiency payments.
4. Base deficiency payments on acres diverted rather than planted acres.
5. Revise cotton base process to avoid higher than necessary acreage reduction requirements.
6. Opposed to cross-compliance and off-setting compliance.
7. Opposed to payment limitations. Support current $50,000 limitation if such limitations are required.
8. Support agricultural research programs.

Strongly recommend consideration of policies to achieve strong cotton export market. Support 1984 agricultural policy export recommendations of President's Export Council.

STATEMENT OF JACK STONE, PRESIDENT, WESTERN COTTON GROWERS ASSOCIATION

FARM BILL

My name is Jack Stone. I am a cotton farmer in Stratford, California, and am President of the Western Cotton Growers Association.

Our organization represents more than 3-thousand cotton growers in California, the second largest cotton producing state in the nation. We are pleased to have the opportunity to present our views on the 1985 Farm Bill, the new long term agriculture and food policy, as it relates to upland cotton.

Ever since its inception, the primary objective of the Western Cotton Growers Association has been to assure that federal farm legislation affecting cotton is helpful to the lasting interest of the cotton industry.

For the past two decades, we have wanted to help write a farm program that is truly market-oriented. One that is world competitive and one that will not build up huge government stocks.

We feel that we must write such a bill now . . . and, to set the stage; I would like to make four points very clear:

1. Our dependence on export trade.—A reality of our agriculture today is the great level of production. The United States produces twice as much cotton as is required to satisfy its domestic needs. That means 53% of our production must be exported! Therefore, any farm program that we practice must definitely be market-oriented and world competitive. There can be no floors that would allow any nation to underprice our product. Such a plan would move away from expensive support costs that contribute to budget deficits and an overpriced dollar.

2. The high-dollar value.—The over-valued dollar is hurting U.S. agriculture more than all other items combined. Where the export market once provided agriculture with a profitable marketing area, it now is sagging under the effects of the strong dollar and overseas competition. The high value of the dollar makes U.S. farm products more expensive in foreign nations while, at the same time, foreign nations can sell their products more cheaply in this country.

Cotton prices have dropped about the same amount the dollar has increased. And, although U.S. cotton is maintaining a share of the export market, it is being forced to do so at a loss which, if not corrected soon, will lead to bankruptcy as it already *has* for many farmers.

The only remedy we know of here is a reduction in government spending.

3. Uncontrolled foreign textiles.—There has been a net loss of over 2½ million bales of our traditional domestic cotton market because of the additional imports of textiles and apparel. It is critical that we avoid anything that might tend to give foreign textile manufacturers any advantage in exporting their products to the United States.

4. Floors.—There should be no floor in the loan rate or in the target price. If there are floors, then the program would no longer be market-oriented.

With these four points in mind, we are supporting the National Cotton Council's broad plan.

The loan: The commodity loan has worked well as a device to help in the efficient marketing of our cotton crop and, without question, it should be retained as a marketing tool. We recommend that the loan rate be the lower of 85% of the preceding five year average domestic price, eliminating the high and low year, or 90% of the Northern Europe average price. We propose a ten month nonrecourse loan with the option to extend an additional eight months. There should be no limit on the amount of the loan.

Target price: It should be 120% of the loan. We support the target price concept in the belief that it provides a measure of income protection when market prices are unduly low. A target is also helpful in persuading farmers to join an acreage reduction program if it is needed.

Payment limitations: We oppose limitations as not being fair and with such limits only a small percentage of the production in the west will participate in the program.

Deficiency payments improvement—If an acreage reduction program is in effect, we propose that the payment be based on acreage diverted from production rather than planted acres, at a rate that will yield a total payment equal to the amount that would have resulted from basing payments on planted acres; and consider the full permitted acreage as planted in calculating future base acreage, whether or not it is actually planted. This change should make our acreage reduction program much more efficient.

Western Cotton Growers Association also supports the current producer checkoff program for Cotton Inc., and the continuation of the seed cotton loan program. We also believe that CCC stocks should not be sold but used as payments for acreage reduction and land retirement programs.

We also support the authorization of an export credit revolving fund and credit guarantees—unlimited to countries with good records of timely loan repayments; as well as adequate funding of foreign market development.

Western Cotton Growers Association also believes that whatever programs are instituted should not be mandatory and benefits will only go to those who participate.

Finally, we do continue to oppose allotments, market quotas, cross compliance and off-setting compliance.

In conclusion, as we move to market-oriented farm legislation and elimination of high loans and target prices, farmers are going to depend on international trade to an even greater extent than currently. I want to emphasize the importance of this country undertaking forceful and firm negotiations with our trading partners, to give American agriculture a fair market in which to operate.

We in cotton and, I'm sure those in most other commodities, are prepared to do business in a market-oriented system as long as we know we are going to get a fair shake in the import-export market.

And, I want to reemphasize that the 1985 program should be written hand-in-hand with an all out effort to lower the value of the dollar.

STATEMENT OF NITA GIBSON, PRESIDENT, COTTON POOL, INC. ALSO REPRESENTING WOMEN INVOLVED IN FARM ECONOMICS

Mr. Chairman, members of the Senate Agriculture Committee, thank you for providing this opportunity to have input into the 1985 farm bill.

My name is Nita Gibson. I am president of Cotton Pool Inc., a cotton marketing association. I have served in this capacity for ten years. I also serve as national cotton chairman for Women Involved in Farm Economics (WIFE). My husband Charles and I live on our farm in Seminole, Texas.

Before we get into our skull practice ideas for your consideration we want to share these general observations:

For the record we strongly oppose the Administration's farm bill. We see it as only dismantling our present legislation. After four years of close encounter with the farmers across America, we had expected more.

We want to go on record urging this committee to establish clear and enforceable policies concerning textile imports. We know the Administration is doing a great deal to curtail imported cotton textiles, and we applaud that, however, more must be done.

The dilemma, as we see it, stems from the U.S. not using traditional trade barriers in the textile and apparel industry, such as high tariffs or global quotas.

Instead, the U.S. uses so-called voluntary export restraints or bilateral quotas. These voluntary export restraints are targeted to a few countries instead of to the whole world.

They are negotiated or employed as an ad-hoc-short-run political policy. What we need is a clear, enforceable policy, that permits our domestic mills to remain a viable industry.

Also, we would like to point out how there is always a "big bear in the woods" theory everytime we attempt to write farm legislation. For example, in 1981 all we had to do was lift the embargo and all would be squared away. Now, in 1985 all we have to do is balance the budget.

Mr. Chairman, this is diversionary hog wash. What we in agriculture really need to do is write farm legislation that will recover a profit to the farmer from the market place without leaning so much on the federal treasury.

For the record, we are for a balanced budget and we are for taking our fair share of budget cuts.

We are against the repeal of authorities under permanent legislation that effect cotton.

Also, we find it extremely ironic, Mr. Chairman, that our country, very piously, demands land reform of other countries. And yet, Secretary Block is proposing a farm bill that will divest every family farmer of his land. The principal of the homestead law is strong in America. We plea for the survival of the family farm.

In the midst of debate of the 1985 farm bill we hear a lot about the "free market."

It is interesting to note Mr. Chairman that the farm bill of 1973 was hailed as "the free market at its best." Also, it claimed to provide "complete freedom of flexibility" for our farmers.

On the other hand, some members of Congress foresaw the pitfalls in the 1973 bill that introduced the target price concept. It was pointed out that the financial liability of government could grow into billions of dollars. The theory was, as market forces have always put farmers in the position of price takers, those same market forces would depress market prices to the extent that deficiency payment would increase and increase.

History certainly bares that out.

It is obvious that the 1973 "free market" bill as amended and brought forward to today has not served us well. We farmers have incurred a $216 billion dollar debt and government has spent billions also.

We urge new legislation for the 1985 farm bill.

Mr. Chairman, as we continue our discussion of the free market concept, we make this observation. It is conceivable that the free market will work for the family farmer provided that the Congress pass laws simultaneously with the 1985 farm bill to restructure all industry.

Without such laws, agriculture will be thrown to the wolves. Existing antitrust laws and countervailing power have not stemmed increased and unreasonable industrial concentration.

It can be argued convincingly that inequitable sharing of power in the market place costs farmers, consumers and our entire economy a great deal of money, in spite of the existence of laws designed to curb monopoly and promote competition.

In fact, Mr. Chairman, we believe agriculture must be given counttervailing power to use against those who possess larger amounts of unreasonable market power. It is my personal opiniion that we have failed in writing successful farm policy because we have not properly recognized, nor have we properly addressed this issue.

At this point we must stress the point that legislation must be written that will lift farmers from being price takers to being price makers.

Mr. Chairman, I take an opportunity such as this very seriously. I know you are wanting ideas. We have two ideas for your consideration.

First, let me say in preparation for this idea session I have reviewed 100 years of American agriculture policy. I have also reviewed marketing strategies in this country, the EEC and other countries of the free world.

Additionally, we want to stress the intent of our ideas for consideration are as follows: Permit self-determination of farmers; restore profitability to agriculture; reduce heavy demands upon the Federal Treasury; to adequately reflect producer, consumer and the nations' domestic and foreign economic interest, and would better serve those interests more than our present policy; and to arm the farmer against vagaries of a market that is driven by political forces and not cut production drastically

Our two ideas, for "think tank" evaluation, would provide 1) an insurance plan for crop and income protection, and 2) for a price recovery system that will garner from the market place a profit to the farmer.

The main provision of the insurance plan would be: To adequately insure against income and crop loss; and to replace Federal Crop Insurance by 1988.

The plan would be funded by a $10.00 per acre assessment on all row crop land. Farmers would own and manage the insurance operation. Annual review of policy would be required.

Hearings on this idea should be held with imput from all farm groups. Details should be worked out by these groups and agreed to before Congress writes the legislation.

Our second idea for condideration is "creating a price recovery system that will garner from the market place a profit to the farmer."

Mr. Chairman—this one is a son-of-a-gun. But try, we must!

In order to accomplish the above stated goal, we recommend enabling legislation by the Congress that would establish a producer owned and controlled marketing board for each commodity.

We want to stress producer owned and operated-not government.

Let me share with you some of the reasons we make this suggestion: We owe $216 billion dollars; we are drawing too heavily on the Federal Treasury; our present policies are not working; and every farmer in America wants a price that will pay his bills.

Historically, in other countries, marketing boards have been established following periods of depressed and uncertain agricultural prices. Producer discontent with the structure and functioning of the agricultural marketing system resulted in the establishment of marketing boards.

We believe marketing boards would give to the American farmer that missing element of management that has always eluded him—namely—management of price and supply.

Management of this type is needed to convert the disorganized resources of the farmer into a useful enterprise. This doctrine is accepted and practiced by all successful business enterprises.

We believe this marketing tool would be a dynamic force that in its functional intent would not only be beneficial to the farmer, but also would make an overriding social contribution to the entire nation.

We envision this board being structured to establish these principals: Eliminate the $50,000 limitation; permit markets (futures and spot) to continue unabated; merchants and exporters would continue in their present role; the entire cotton industry would work together in establishing production goals; annual review of policies to amend or correct if necessary; 81¢ target price staying intact; elimination of deficiency payments on domestic sales; and continuation of deficiency payments on export sales.

We envision reducing treasury expenditures by 45 to 50 percent of present costs.

We believe we could reestablish our exports markets if not enhance them.

Mr. Chairman, we realize that what we are suggesting is a significant departure from current and past policies.

We also realize that you will have to obtain producers' approval, perhaps through a referendum before legislation is written. We request that your staff, as we say, put a pencil to this idea. If it is found to be feasible, then we could proceed.

Perhaps a pilot project of this nature could save our beloved industry.

Statement of Joe Sanner, Arkansas Delegate, American Agriculture Movement, Inc.

Gentlemen, it is a pleasure to appear before you today representing the American Agriculture Movement to discuss the 1985 farm bill as it pertains to cotton.

As we look at future agriculture legislation, we should review our mistakes of the past in order that we do not repeat them.

In general, the 1981 farm bill has been too expensive to government, and ironically, has not provided the farmer any protection. This is evident by the ever increasing number of farm foreclosures and bank failures. The present program has failed to bring supply in line with demand for three reasons. First, the voluntary acreage reduction provision allowed a farmer to stay out of the program in hopes that enough of his neighbors would participate to get the price up on his fence row-to-fence row production. Second, the base acreage has not been frozen, thus allowing a farmer to place his farm that had an established base in the program and lease another farm with no base and build one. This was penny wise and pound foolish. One cannot have his cake and eat it, too. Third, the $50,000 limitation of payments has kept the larger producer out of the program. With 20% of the farmers controlling 80% of the production, it can be seen that we can have the majority of farmers in the program and still have the majority of the acreage outside.

The '85 farm bill must put a profit back in agriculture. It must have an incentive so that all producers will participate and must reduce government exposure. With these thoughts in mind, the AAM recommends:

1. C.C.C. loan rates set at 70% of parity for all basic commodities, including cotton, with a 2% increase annually. This would bring the loan rate to 90% of parity by 1996 and would remain there until the year 2000. The 70% of parity is the approximate average cost of production, including land use and return to management. This would presently be 86¢ per pound under the parity formula which is what the target price would have been, had target prices not have been frozen at the 1984 level.

2. Supply management should be accomplished by a mandatory program through referendum by farm operators with quantity controls (bushels, bales, pounds, etc.), in addition to a 10% acreage reduction. Production quotas shall be established according to inventory stocks.

The leadership of the AAM has had hundreds of meetings in 34 states in recent months. We believe that a referendum would pass, but should it not, we then would recommend that once a farmer got out of the program, he would have to comply with the acreage reduction program one year before he would be eligible for the loan rate the next year. We must have enough teeth in the farm bill so that a person will think twice or be afraid to get out of the program.

3. The terms of the non-recourse C.C.C. loans shall be a minimum of 36 months. This will give the Secretary of Agriculture time to adjust ending inventory stocks to the desired levels so that the government will not have to take title to the commodity.

According to the Food and Agricultural Policy Research Institute, the parity concept provides the least amount of direct government payments than any program proposed thus far. It would cost government $4.4 billion the first year to bring supply in balance with demand, after that, the direct government payment would be zero.

4. Last year we imported approximately 3 million bales of cotton in textiles, 2.2 million bales of which was not U. S. cotton. In the last five years, we have had approximately 250 textile plants to close and lost approximately 300,000 jobs due to these imports. It has been estimated that by the early 1990's we will have lost our entire domestic textile industry. When other nations use import tariffs and export subsidies, it is considered good business, but if we suggest this, they scream, "Protectionism". It is time we put American first and stopped these imports. This the AAM recommends.

5. Normally, we export 50% to 60% of our cotton production, so therefore, we need to maintain our export market. Why do foreign countries trade with us? Not because we are good people. In the eyes of the rest of the world, we are the big, fat, ugly Americans. The three reasons are: (favorable balance of trade) they can and do sell us more manufactured goods than they buy raw materials; they cannot get it anywhere else; and we will extend credit when the other cotton exporting nations won't or can not because most are third world nations. The idea that they only buy from us because it is cheaper has been overplayed.

Every other cotton exporting nation either subsidizes imput cost to the farmer (fertilizer, chemicals, irrigation water, etc.) or exports. They can undersell us any time they want to. China has gone from 10 to 25 million bales production in four years. They did this by implementing a modified free enterprise system (a quota with excess production going to the farmer) with fertilizer and irrigation water furnished by the government at no cost. It has been reported that in 1984 they used an average of 1361 pounds of fertilizer and every acre was irrigated.

In order to be competitive in world markets, we recommend the use of subsidies, export PIK, adequate credit, interest buy down, P.L. 480, etc. These should match subsidies used by foreign governments, whether they are direct or hidden.

We are seeing many corporations enter agriculture because of our tax structure. Because of this, there should be a maximum write-off of $20,000 for non-farm income through tax loss farming.

Gentlemen, there are many variables such as the high valued dollar, weather, exports, imports, etc. which affect the ending inventory stocks and thus ultimately determien price and profit, which we must have. If we are ever going to correct our deficit and balance our budget, we must make farmers taxpayers again, rather than welfare recipients. We of the AAM believe that we have outlined a program which does address these issues and believe it worthy of your consideration.

I thank you and will be glad to answer any questions you may have.

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